IPCC ACCOUNTING

PRACTICE MANUAL

Contents

CHAPTER - 1

Accounts from Incomplete Records

Illustration 1

The books of account of Ruk Ruk Maan of Mumbai showed the following figures

	31.3.2008 Rs.	31.32009 Rs.
Furniture & fixtures	2,60,000	2,34.000
Stock	2,45,000	3,20,000
Debtors	1,25.000	?
Cash in hand & bank	1.10,000	?
Creditors	1,35,000	1,90,000
Bills payable	70,000	80,000
Outstanding salaries	19,000	20,000

	Rs.
Cash sales	16.20.000
Collection from debtors	10.58,000
Discount allowed to debtors	20.000
Cash purchases	6.15.000
Payment to creditors	9.73.000
Discount received from creditors	32000
Payment for bills payable	4.30.000
Drawings for domestic expenses	1,20.000
Salaries paid	2,36000
Rent paid	1,32,000
Sundry trade expenses	81,000

Depreciation is provided on furniture & fixtures @10% p.a. on diminishing balance method. Ruk Ruk Mean maintains a steady gross profit rate of 25% on sales.

You are required to prepare Trading and Profit and Loss account for the year ended 31st March, 2009 and Balance Sheet as on that date. (16 Marks)

Solution :

In the books of Ruk Ruk Maan
Trading & Profit & Loss Account
for the year ended 31st March, 2009

Particulars	Amount Rs.	Particulars	Amount Rs.
To Opening stock	2,45,000	By Sales:	
To Purchases:		Cash	16,20,000
Cash	6,15,000	Credit (W.N.3)	11,00,000
Credit (WN. 2)	15,00,000	By Closing stock	3,20,000
To Gross profit c/d	6,80,000		
	30,40,000		30,40,000
To Salaries (W.N.5)	2,37,000	By Gross profit bid	6,80,000
To Rent	1,32,000	By Discount received	32,000
To Sundry trade expenses	81,000		
To Discount allowed	20,000		
To Depreciation on furniture & fixtures	26,000		
To Net profit	2,16.000		
	7,12,000		7,12,000

Balance Sheet
as at 31St March, 2009

Liabilities		Amount Rs.		Amount Rs.
Capital			Fixed assets	
Opening balance (WN. 7)	5,16,000		Furniture & fixtures	2,34,000
Add' Net profit	2,16,000		Current assets:	
	7,32,000		Stock	3,20,000
Less: Drawings	1,20,000	6,12,000	Debtors (W.N. 4)	1,47,000
Current liabilities			Cash & bank (W.N. 6)	2,01,000
& provisions:				
Creditors		1,90,000		
Bills payable		80,000		
Outstanding salaries		20,000		
		9,02,000		9,02,000

Working Notes:

1. Bills Payable A/c

	Rs.		Rs.
To Cash/ Bank	4,30,000	By Balance b/d	70,000
To Balance c/d	80,000	By Trade creditors (Bal. fig.)	4,40,000
	5,10,000		5,10,000

2. Creditors A/c

	Rs.		Rs.
To Cash/ Bank	9,73,000	By Balance b/d	1.35,000
To Bills payable A/c (W.N.1)	4,40,000	By Credit purchases (bal. fig)	15,00,000
To Discount received	32,000		
To Balance c/d	1,90,000		
	16,35,000		16,35,000

3. Calculation of Credit Sale

		Rs.
Opening stock		2,45,000
Add: Purchases		
Cash purchases	6,15,000	
Credit purchases	15,00,000	21,15,000
		23,60,000
Less: Closing Stock		3,20,000
Cost of goods sold		20,40,000
Gross profit ratio on sales		25%
Total sales [Rs. 20,40,000 x 100/75]		27,20,000
Less: Cash sales		16,20,000
Credit sales		11,00,000

4. Debtors A/c

	Rs.		Rs.
To Balance bid	1,25,000	By Cash/Bank	10,58.000
To Credit sales (W.N.3)	11,00,000	By Discount allowed	20,000
		By Balance c/d (Bal fig)	147,000
	12,25,000		12,25,000

5. Salaries

		Rs.
Salaries paid during the year		2,36,000
Add:	Outstanding salaries as on 31.3.2009	20,000
		2,56,000
Less:	Outstanding salaries as on 31.03.2008	19,000
		2,37,000

6. Cash/ bank A/c

	Rs.		Rs.
To Balance bid	1,10,000	By Cash purchases	6,15,000
To Cash sales	16.20,000	By Creditors	9,73,000
To Debtors	10,58,000	By Bills payable	4,30,000
		By Drawings	1,20,000
		By Salaries	2,36,000
		By Rent	1,32,000
		By Sundry trade expenses	81,000
		By Balance c/d	2,01,000
	27,88,000		27,88,000

Balance Sheet
as at 31st March, 2008

	Rs.		Rs
Creditors	1,35,000	Furniture & fixtures	2,60,000
Bills payable	70,000	Stock	2,45,000
Outstanding salaries	19,000	Deblors	1,25,000
Capital (Bal. fig.)	5,16,000	Cash & bank	1,10,000
	7,40,000		7,40,000

Illustration 2

On April, 1, 2007 Mr. Silgardo bought for Rs. 50,000 a business whose assets and liabilities are shown below. The business carried on its operations in a rented shop from which it sold cosmetics and confectionery. The business did not keep double entry accounts, but you are provided with the following information :

(i) Balance Sheet of the company as on 31st March, 2007:

Liabilities	Rs.	Assets	Rs.
Capital :	50,000	**Fixed Assets :**	
Profit & Loss A/c.	10,500	Furniture & Fixtures (at cost)	30,000
Creditors :		**Current Assets :**	
Cosmetics	2,500	Stock of Cosmetics (at cost)	5,000
Confectionary	2,000	Stock of Confectionary (at cost)	3,000
Outstanding rent	500	Sundry Debtors : Confectionary	500
		Prepaid : Rent & Insurance	2,500
		Balance with bank	23,500
		Cash in hand	1,000
	65,500		65,500

(ii) *Analysis of the Bank statement for the year ended March 31, 2008 :*

	Rs.
Paid in : Cash	2,45,000
Withdrawn for :	
Purchase of cosmetics	1,00,000
Purchase of confectionary	1,10,000
Repairs	4,000
Rent	6,000
Rates & Insurance	10,000
Electricity	4,000
Mr. Silgardo	15,000

(iii) *The following were paid in cash:*

	Rs.
Salaries	15,000
Confectionary purchases	1,500
Trade expenses	1,250
Cosmetic purchases	5,000

(iv) Mr. Silgardo had taken from the shop Cosmetics for his own consumption and paid into the till the cost price of Rs.4,550.

(v) The following are the gross profit percentages with reference to sales: Cosmetics – 9%, Confectionery – 30%.

(vi) On 31st March, 2008 there were :		Stock at cost	Debtors/Prepayments and Cash	Liabilities
Cosmetics	(Rs.)	4,850	Nil	2,000
Confectionary	(Rs.)	3,500	1,000	3,000
Rent	(Rs.)			500
Rates & Insurance	(Rs.)		2,750	
Cash in hand	(Rs.)		250	
Accountancy / Audit Fees	(Rs.)			2,000

(vii) Mr. Silgardo has instructed you to regard any shortage in cash as being due to amounts withdrawn by him.

You are required to prepare :

(a) The Trading and Profit and Loss Account for the year ended March, 31st, 2008 showing separately the gross profit from (i) Cosmetics; and (ii) Confectionery.

(b) The Balance Sheet as at March 31, 2008;

(c) Total Debtors and Total Creditors Accounts; and

(d) An Account in columnar form for cash and bank transactions.

Solution :

Silgardo

Dr. Trading and Profit and Loss Account for the year ended 31st March, 2008 Cr.

Particulars	Cosmetics	Confec-tionary	Total Rs.	Particulars	Cosmetics	Confec-tionary	Total Rs.
To Opening Stock	5,000	3,000	8,000	By Sales	1,10,000	1,60,000	2,70,000
To Purchases	1,04,500	1,12,500	2,17,000	By Drawings	4,550	--	4,550
To Gross profit c/d	9,900	48,000	57,900				
	1,19,400	1,63,500	2,82,900		1,19,400	1,63,500	2,82,900
To Salaries			15,000	By Gross profit b/d :			
To Rates & Insurance		10,000		Cosmetics		9,900	
Add: Pain in 2006–07		2,500		Confectionary		48,000	57,900
		12,500					
Less: Paid for 2008–09		2,750	9,750				
To Rent		6,000					
Add: Outstanding for 2007–08		500					
		6,500					
Less: Outstanding for 2006–07		500	6,000				
To Repairs			4,000				
To Electricity			4,000				
To Trade expenses			1,250				
To Accountancy / Audit Fees			2,000				
To Net Profit			15,900				
			57,900				57,900

Balance Sheet of Silgardo as at 31st March, 2008

Liabilities		Rs.	Assets	Rs.
Capital :			Furniture & Fittings (at cost)	30,000
Opening balance	60,500		Stock-in-trade :	
Add: Net Profit	15,900		Cosmetics	4,850
	76,400		Confectionary	3,500
Less: Drawings	22,050	54,350	Sundry Debtors : Confectionary	1,000
Creditors			Cash at bank	19,500
Cosmetics		2,000	Cash in hand	250
Confectionary		3,000	Prepaid expenses	2,750
Outstanding Accountancy / Audit Fees		2,000		
Rent outstanding		500		
		61,850		61,850

Dr. Total Debtors Account Cr.

Particulars	Cosmetics	Confectionary	Particulars	Cosmetics	Confectionary
To Balance b/d	--	500	By Cash A/c. (balancing figure)	1,10,000	1,59,500
To Sales	1,10,000	1,60,000	By Balance c/d	--	1,000
	1,10,000	1,60,500		1,10,000	1,60,500

Dr. Total Creditors Account Cr.

Particulars	Cosmetics	Confectionary	Particulars	Cosmetics	Confectionary
To Bank A/c.	1,00,000	1,10,000	By Balance b/d	2,500	2,000
To Cash A/c.	5,000	1,500	By Purchases (balancing figure)	1,04,500	1,12,500
To Balance c/d	2,000	3,000			
	1,07,000	1,14,500		1,07,000	1,14,500

Dr. Cash Book Cr.

Particulars	Cash	Bank	Particulars	Cash	Bank
To Balance b/d	1,000	23,500	By Total Creditors :		
To Total Debtors :			Cosmetics		1,00,000
Cosmetics	1,10,000		Confectionary		1,10,000
Confectionary	1,59,500		By Bank (contra)	2,45,000	
To Sales (cash)	4,550		By Repairs		4,000
To Cash (contra)		2,45,000	By Rent		6,000
			By Rates & Insurance		10,000
			By Electricity		4,000
			By Drawings		15,000

		By Salary		15,000
		By Total Creditors A/c. :		
		Cosmetics	5,000	
		Confectionary	1,500	
		By Trade expenses	1,250	
		By Drawings		7,050
		By Balance c/d	250	19,500
2,75,050	2,68,500		2,75,050	2,68,500

Working Notes :

Ascertainment of the Sales Proceeds

Particulars	Cosmetics	Confectionary
Opening Stock	5,000	3,000
Add: Purchases	1,04,500	1,12,500
	1,09,500	1,15,500
Less: Stock used for personal purpose (at cost)	4,550	--
	1,04,950	1,15,500
Less: Closing Stock	4,850	3,500
Cost of goods sold	1,00,100	1,12,000

Therefore, sale proceeds for cosmetics is $\frac{Rs.1{,}00{,}100 \times 100}{91}$ = Rs. 1,10,000.

And, sale proceeds for confectionary is $\frac{\text{Rs.}1{,}12{,}000 \times 100}{70}$ = Rs. 1,60,000

Drawings = Goods Rs. 4,550 + Cash Rs. 2,500 + Bank Rs. 15,000 = Rs. 22,050.

Illustration 3

The following is the Balance Sheet of the retail business of Sri Srinivas as at 31st December, 1998:

Liabilities	Rs.	Assets	Rs.
Sri Srinivas's capital	1,00,000	Furniture	10,000
Liabilities for goods	20,500	Stock	70,000
Rent	1,000	Debtors	25,000
		Cash at bank	14,500
		Cash in hand	2,000
	1,21,500		1,21,500

You are furnished with the following information :

(1) Sri Srinivas sells his goods at a profit of 20% on sales.

(2) Goods are sold for cash and credit. Credit customers pay by cheques only.

(3) Payments for purchases are always made by cheques.

(4) It is the practice of Sri Srinivas to send to the bank every weekend the collections of the week after paying every week, salary of Rs. 300 to the clerk, Sundry expenses of Rs. 50 and personal expenses Rs. 100.

Analysis of the Bank Pass–Book for the 13 weeks period ending 31st March, 1999 disclosed the following :

	Rs.
Payments to creditors	75,000
Payments of rent upto 31.3.99	4,000
Amounts deposited into the bank	1,25,000
(include Rs. 30,000 received from debtors by cheques)	

The following are the balances on 31st March, 1999 :

	Rs.
Stock	40,000
Debtors	30,000
Creditors for goods	36,500

On the evening of 31st March, 1999 the Cashier absconded with the available cash in the cash box. There was no cash deposit in the week ended on that date.
You are required to prepare a statement showing the amount of cash defalcated by the Cashier and also a Profit and Loss Account for the period ended 31st March, 1999 and a Balance Sheet as on that date.

Solution :

Statement showing the amount of cash defalcated by the Cashier

	Rs.	Rs.
Cash balance as on 1.1.99		2,000
Add : Cash sales		1,16,250
		1,18,250
Less : Salary to clerk (Rs. 300 × 13)	3,900	
Sundry expenses (Rs. 50 × 13)	650	
Drawings of Sri Srinivas (Rs. 100 × 13)	1,300	
Deposit into bank (Rs. 1,25,000 – Rs. 30,000)	95,000	1,00,850
Cash balance as on 31.3.99 (defalcated by cashier)		17,400

Trading and Profit and Loss Account of Sri Srinivas

for the 13 week period ended 31st March, 1999

	Rs.		Rs.	Rs.
To Opening stock	70,000	By Sales :		
To Purchases	91,000	Cash	1,16,250	
To Gross Profit c/d	30,250	Credit	35,000	1,51,250
		By Closing stock		40,000
	191,250			1,91,250
To Salaries	3,900	By Gross profit b/d		30,250
To Rent (Rs. 4,000 – Rs. 1,000)	3,000			
To Sundry Expenses	650			
To Loss of cash by theft	17,400			
To Net Profit	5,300			
	30,250			30,250

Balance Sheet of Sri Srinivas
as on 31st March, 1999

Liabilities		Rs.	Assets	Rs.
Capital as on 1.1.99	1,00,000		Furniture	10,000
Add : Profit	5,300		Stock	40,000
	1,05,300		Debtors	30,000
Less : Drawings	1,300	1,04,000	Cash at bank	60,500
Liabilities for goods		36,500		
		1,40,500		1,40,500

Working Notes :

(1) Purchases

Creditors Account

	Rs.		Rs.
To Bank A/c	75,000	By Balance b/d	20,500
To Balance c/d	36,500	By Purchases A/c(Balancing figure)	91,000
	1,11,500		1,11,500

(2) Total sales

	Rs.
Opening stock	70,000
Add : Purchases	91,000
	1,61,000
Less : Closing stock	40,000
Cost of goods sold	1,21,000
Add : Gross profit (@25% on cost)	30,250
Total Sales	1,51,250

(3) Credit Sales

Debtors Account

	Rs.		Rs.
To Balance b/d	25,000	By Bank A/c	30,000
To Sales A/c (Balancing figure)	35,000	By Balance c/d	30,000
	60,000		60,000

(4) Cash Sales

	Rs.
Total sales	1,51,250
Less : Credit Sales	35,000
Cash sales	1,16,250

(5) Bank balance as on 31.3.99

	Rs.		Rs.
To Balance b/d	14,500	By Creditors A/c	75,000
To Debtors A/c	30,000	By Rent A/c	4,000
To Cash A/c	95,000	By Balance c/d	60,500
	1,39,500		1,39,500

Notes :

1. All purchases are taken on credit basis.
2. In the absence of information about the rate of depreciation, no depreciation has been charged on furniture. Alternatively, students may assume any appropriate rate of depreciation and account for the charge.
3. The amount defalcated by the cashier may be treated as recoverable from him. In that case, Rs. 17,400 may be shown as sundry advances on assets side in the Balance Sheet and net profit for the 13 week period ending 31st March, 1999 would amount Rs. 22,700.

Illustration 4

The following is the Balance Sheet of a concern on 31st March, 2000 :

	Rs.		Rs.
Capital	10,00,000	Fixed Assets	4,00,000
Creditors (Trade)	1,40,000	Stock	3,00,000
Profit & Loss A/c	60,000	Debtors	1,50,000
		Cash & Bank	3,50,000
	12,00,000		12,00,000

The management estimates the purchases and sales for the year ended 31st March, 2001 as under :

	upto 28.2.2001	March 2001
	Rs.	Rs.
Purchases	14,10,000	1,10,000
Sales	19,20,000	2,00,000

It was decided to invest Rs. 1,00,000 in purchases of fixed assets, which are depreciated @ 10% on cost.

The time lag for payment to Trade Creditors for purchase and receipt from Sales is one month. The business earns a gross profit of 30% on turnover. The expenses against gross profit amount to 10% of the turnover. The amount of depreciation is not included in these expenses.

Draft a Balance Sheet as at 31st March, 2001 assuming that creditors are all Trade Creditors for purchases and debtors for sales and there is no other item of current assets and liabilities apart from stock and cash and bank balances.

Solution :

Projected Balance Sheet of ......
as on 31st March, 2001

Liabilities		Rs.	Assets		Rs.
Capital		10,00,000	Fixed Assets	4,00,000	
Profit & Loss Account as on			Additions	1,00,000	
1st April, 2000	60,000			5,00,000	
Add : Profit for the year	3,74,000	4,34,000	Less : Depreciation	50,000	4,50,000
Creditors (Trade)		1,10,000	Stock in trade		3,36,000
			Sundry Debtors		2,00,000
			Cash & Bank Balances		5,58,000
		15,44,000			15,44,000

Working Notes:

1. **Projected Trading and Profit and Loss Account**
for the year ended 31st March, 2001

	Rs.		Rs.
To Opening Stock	3,00,000	By Sales	21,20,000
To Purchases	15,20,000	By Closing Stock	3,36,000
To Gross Profit c/d	6,36,000	(balancing figure)	
(30% on sales)			
	24,56,000		24,56,000
To Sundry Expenses (10% on sales)	2,12,000	By Gross Profit b/d	6,36,000
To Depreciation	50,000		
To Net Profit	3,74,000		
	6,36,000		6,36,000

2. **Cash and Bank Account for the period**
1st April, 2000 to 31st March, 2001

	Rs.		Rs.
To Balance b/d	3,50,000	By Sundry Creditors	15,50,000
To Sundry Debtors	20,70,000	(Rs. 1,40,000 + Rs. 14,10,000)	
(Rs. 1,50,000 + Rs. 19,20,000)		By Expenses	2,12,000
		By Fixed Assets	1,00,000
		By Balance c/d	5,58,000
	24,20,000		24,20,000

Note : The entire sales and purchases are taken on credit basis.

Illustration 5

'A' and 'B' are in partnership sharing profits and losses equally. They keep their books by single entry system. The following balances are available from their books as on 31.3.2006 and 31.3.2007

	31.3.2006	31.3.2007
Building	Rs.	Rs.
Equipments	1,50,000	1,50,000
Furniture	2,40,000	2,72,000
Debtors	25,000	25,000
Creditors	?	1,00,000
Stock	65,000	?
Bank loan	?	70,000
Cash	45,000	35,000
	60,000	?

The transactions during the year ended 31.3.2007 were the following:

	Rs.
Collection from debtors	3,80,000
Payment to creditors	2,50,000
Cash purchases	65,000
Expenses paid	40,000
Drawings by 'A'	30,000

On 1.4.2006 an equipment of book value Rs.20,000 was sold for Rs.15,000. On 1.10.2006, some equipments were purchased.

Cash sales amounted to 10% of sales.

Credit sales amounted to Rs.4,50,000.

Credit purchases were 80% of total purchases.

The firm sells goods at cost plus 25%.

Discount allowed Rs.5,500 during the year.

Discount earned Rs.4,800 during the year.

Outstanding expenses Rs.3,000 as on 31.3.2007.

Capital of 'A' as on 31.3.2006 was Rs.15,000 more than the capital of 'B', equipments and furniture to be depreciated at 10% p.a. and building @ 2% p.a.

You are required to prepare:
(i) Trading and Profit and Loss account for the year ended 31.3.2007 and
(ii) The Balance Sheet as on that date. (20 Marks)

Solution :

Trading and Profit and Loss A/c for the year ended 31.3.2007

			Rs.				Rs.
To	Opening stock (W.N.3)		1,45,000	By	Sales- Cash (W.N.1)	50,000	
To	Purchases-Cash	65,000			Credit	4,50,000	5,00,000
	Credit (W.N.2)	2,60,000	3,25,000	By	Closing stock		70,000
To	Gross profit c/d		1,00,000				
			5,70,000				5,70,000
To	Loss on sale of equipment			By	Gross profit b/d		1,00,000
To	(20,000-15,000)		5,000	By	Discount received		4,800
	Depreciation	3,000					
	Building	2,500					
	Furniture	24,600					
To	Equipment (W.N.4)	40,000	30,100				
	Expenses paid						
To	Add : Outstanding expenses	3,000					
To	Discount allowed		43,000				
	Net profit transferred to:		5,500				
	A's capital A/c	10,600					
	B's capital A/c	10,600	21,200				
			1,04,800				1,04,800

Balance Sheet as on 31-3-2007

Liabilities		Rs.	Assets		Rs.
A's capital (W.N.7)	2,80,250		Building	1,50,000	
Less: Drawings	30,000		Less: Depreciation	3,000	1,47,000
	2,50,250		Equipments	2,72,000	
Add: Net profit	10,600	2,60,850	Less: Depreciation	24,600	2,47,400
B's capital (W.N.7)	2,65,250		Furniture	25,000	
Add: Net profit	10,600	2,75,850			
			Less: Depreciation	2,500	22,500
Sundry creditors (W.N.5)		70,200	Debtors		1,00,000
Bank loan		35,000	Stock		70,000
Outstanding expenses		3,000	Cash balance (W.N.8)		58,000
		6,44,900			6,44,900

Working Notes:

1. **Calculation of total sales and cost of goods sold**

Cash sales = 10% of total sales

Credit sales = 90% of total sales = Rs.4,50,000

Total sales = $\frac{4,50,000}{90} \times 100 = 5,00,000$

Cash sales = 10% of 5,00,000 = Rs.50,000

2. **Calculation of total purchases and credit purchases**

Cash purchases = Rs.65,000

Credit purchases = 80% of total purchases

Cash purchases = 20% of total purchases

Total purchases = $\frac{65,000}{20} \times 100 = 5,00,000$

Credit purchases = 3,25,000 – 65,000 = Rs.2,60,000

3. **Calculation of opening stock**

Stock Account

	Rs.		Rs.
To Balance b/d (Bal. Fig.)	1,45,000	By Cost of goods sold $\frac{5,00,000}{125} \times 100$	4,00,000
To Total purchases (W.N.2)	3,25,000	By Balance c/d	70,000
	4,70,000		4,70,000

4. Purchase of equipment & depreciation on equipments

Equipment Account

	Rs.		Rs.
Balance b/d	2,40,000	By Cash -equipment sold	15,000
Cash-purchase (Bal. Fig.)	52,000	By Profit and Loss Accounts (Loss on sale)	5,000
		By Balance c/d	2,72,000
	2,92,000		2,92,000

Depreciation on equipment :

@ 10% p.a. on Rs.2,20,000 (i.e Rs.2,40,000 – Rs.20,000)	=	22,000
@ 10% p.a. on Rs.52,000 for 6 months (i.e. during the year)	=	2,600
		24,600

5. Calculation of closing balance of creditors

Creditors Account

	Rs.		Rs.
To Cash	2,50,000	By Balance b/d	65,000
To Discount received	4,800	By Credit purchases (W.N.2)	2,60,000
To Balance c/d (Bal. Fig.)	70,200		
	3,25,000		3,25,000

6. Calculation of opening balance of debtors

Debtors Account

	Rs.		Rs.
To Balance b/d (Bal. Fig.)	35,500	By Cash	3,80,000
To Sales (Credit)	4,50,000	By Discount allowed	5,500
		By Balance c/d	1,00,000
	4,85,500		4,85,500

7. Calculation of capital accounts of A & B as on 31.3.2006

Balance Sheet as on 31.3.2006

Liabilities	Rs.	Assets	Rs.
Combined Capital Accounts of A & B (Bal. Fig.)	5,45,500	Building	1,50,000
		Equipments	2,40,000
Creditors	65,000	Furniture	25,000
Bank Loan	45,000	Debtors (W.N.6)	35,500
		Stock (W.N.3)	1,45,000
		Cash balance	60,000
	6,55,500		6,55,500

	Rs.
Combined Capitals of A & B	5,45,500
Less: Difference in capitals of A and B	15,000
	5,30,500

A's Capital as on 31.3.2006 $= \frac{5,30,500}{2} = 2,65,250 + 15,000 =$ Rs. 2,80,250

B's Capital as on 31.3.2006 $= \frac{5,30,500}{2} =$ Rs.2,65,250

Cash Account

	Rs.			Rs.
Balance b/d	60,000	By	Creditors	2,50,000
Debtors	3,80,000	By	Purchases	65,000
Equipment (sales)	15,000	By	Expenses	40,000
Cash sales (W.N.1)	50,000	By	A's drawings	30,000
		By	Bank loan paid	10,000
		By	(45,000-35,000)	52,000
		By	Equipment purchased (W.N.4)	58,000
	5,05,000		Balance c/d (Bal. Fig.)	5,05,000

Illustration 6

Ram carried on business as retail merchant. He has not maintained regular account books. However, he always maintained Rs. 10,000 in cash and deposited the balance into the bank account. He informs you that he has sold goods at profit of 25% on sales.

Following information is given to you:

Assets and Liabilities	**As on 1.4.2007**	**As on 31.3.2008**
Cash in Hand	10,000	10,000
Sundry Creditors	40,000	90,000
Cash at Bank	50,000 (Cr.)	80,000 (Dr.)
Sundry Debtors	1,00,000	3,50,000
Stock in Trade	2,80,000	?

Analysis of his bank pass book reveals the following information:

(a) Payment to creditors Rs. 7,00,000

(b) Payment for business expenses Rs. 1,20,000

(c) Receipts from debtors Rs. 7,50,000

(d) Loan from Laxman Rs. 1,00,000 taken on 1.10.2007 at 10% per annum

(e) Cash deposited in the bank Rs. 1,00,000

He informs you that he paid creditors for goods Rs. 20,000 in cash and salaries Rs. 40,000 in cash. He has drawn Rs. 80,000 in cash for personal expenses. During the year Ram had

not introduced any additional capital. Surplus cash if any, to be taken as cash sales.
Prepare:

(i) Trading and Profit and Loss Account for the year ended 31.3.2008.
(ii) Balance Sheet as at 31st March, 2008

Solution :

Trading and Profit and Loss Account for the year ended 31st March, 2008

		Rs.				Rs.
To	Opening stock	2,80,000	By	Sales		
To	Purchases	7,70,000		Cash	2,40,000	
To	Gross Profit @ 25%	3,10,000		Credit	10,00,000	12,40,000
			By	Closing Stock		1,20,000
		13,60,000				13,60,000
To	Salaries	40,000	By	Gross Profit		3,10,000
To	Business expenses	1,20,000				
To	Interest on loan	5,000				
To	Net Profit	1,45,000				
		3,10,000				3,10,000

Balance Sheet as at 31st March, 2008

Liabilities	Rs.	Rs.	Assets	Rs.
Ram's capital:			Cash in hand	10,000
Opening	3,00,000		Cash at Bank	80,000
Add: Net Profit	1,45,000		Sundry Debtors	3,50,000
	4,45,000		Stock in trade	1,20,000
Less: Drawings	80,000	3,65,000		
Loan from Laxman				
(including interest due)		1,05,000		
Sundry Creditors		90,000		
		5,60,000		5,60,000

Working Notes:

1. Sundry Debtors Account

		Rs.			Rs.
To	Balance b/d	1,00,000	By	Bank A/c	7,50,000
To	Credit sales (Bal. fig)	10,00,000	By	Balance c/d	3,50,000
		11,00,000			11,00,000

2. Sundry Creditors Account

	Rs.		Rs.
To Bank A/c	7,00,000	By Balance b/d	40,000
To Cash A/c	20,000	By Purchases (Bal. fig.)	7,70,000
To Balance c/d	90,000		
	8,10,000		8,10,000

3. Cash and Bank Account

	Cash Rs.	Bank Rs.		Cash Rs.	Bank Rs.
To Balance b/d	10,000		By Balance b/d		50,000
To Sales (bal. fig)	2,40,000		By Bank A/c (C)	1,00,000	
To Cash (C)		1,00,000	By Salaries	40,000	
To Debtors		7,50,000	By Creditors	20,000	7,00,000
To Laxman's loan		1,00,000	By Drawings	80,000	
			By Business expenses		1,20,000
			By Balance c/d	10,000	80,000
	2,50,000	9,50,000		2,50,000	9,50,000

4. Calculation of Ram's Capital on 1st April, 2007

Balance Sheet as at 01.04.2007

Liabilities	Rs.	Assets	Rs.
Ram's Capital (bal. fig)	3,00,000	Cash in hand	10,000
Bank Overdraft	50,000	Sundry Debtors	1,00,000
Sundry Creditors	40,000	Stock in trade	2,80,000
	3,90,000		3,90,000

Illustration 7

A. Adamjee keeps his books on single entry basis. The analysis of the cash book for the year ended on 31st December, 2008 is given below:

Receipts	Rs.	Payments	Rs.
Bank Balance as on 1st January, 2008	2,800	Payments to Sundry creditors	35,000
Received from Sundry Debtors	48,000	Salaries	6,500
		General expenses	2,500
Cash Sales	11,000	Rent and Taxes	1,500
Capital brought during the year	6,000	Drawings	3,600
Interest on Investments	200	Cash purchases	12,000
		Balance at Bank on 31st Dec., 2008	6,400
		Cash in hand on 31st Dec., 2008	500
	68,000		68,000

Particulars of other assets and liabilities are as follows:

	1st January, 2008	31st December, 2008
Sundry Debtors	14,500	17,600
Sundry Creditors	5,800	7,900
Machinery	7,500	7,500
Furniture	1,200	1,200
Stock	3,900	5,700
Investments	5,000	5,000

Prepare final accounts for the year ending 31st December, 2008 after providing depreciation at 10 percent on machinery and furniture and Rs. 800 against doubtful debts.

Solution

Statement of Affairs of A. Adamjee as on 1-1-2008

	Rs.		Rs.
Sundry Creditors	5,800	Machinery	7,500
A. Adamjee.s Capital (balancing figure)	29,100	Furniture	1,200
		Stock	3,900
		Sundry Debtors	14,500
		Investments	5,000
		Bank balance (from Cash Statement)	2,800
	34,900		34,900

Ledger Accounts

A. Adamjee.s Capital Account

Dr.					Cr.
	Rs.			Rs.	
To Drawings	3,600	Jan. 1	By Balance	29,100	
To Balance c/d	31,500	Dec. 31	By Cash	6,000	
	35,100				35,100

Sales Account

						Rs.
Dec. 31	To Trading A/c	62,100	Dec. 31	By	Cash	11,000
			Dec. 31	By	Total Debtors Account	51,100
		62,100				62,100

Total Debtors Account

		Rs.			Rs.
Jan. 1	To Balance b/d	14,500	Dec. 31	By Cash	48,000
Dec. 31	To Credit sales (Balancing figure)	51,100	Dec. 31	By Balance c/d	17,600
		65,600			65,600
Jan. 1	To Balance b/d	17,600			

Total Creditors Account

		Rs.			Rs.
Dec. 31	To Cash	35,000	Jan. 1	By Balance b/d	5,800
Dec. 31	To Balance b/d	7,900	Dec. 31	By Credit Purchases (Balancing figure)	37,100
		42,900			42,900

A. Adamjee

Trading and Profit & Loss Account for the year ended 31-12-2008

	Rs.		Rs.
To Opening Stock	3,900	By Sales	62,100
To Purchases	49,100	By Closing Stock	5,700
To Gross profit c/d	14,800		
	67,800		67,800
To Salaries	6,500	By Gross Profit b/d	14,800
To Rent and Taxes	1,500	By Interest on Investment	200
To General Expenses	2,500		
To Depreciation :			

	Machinery	Rs. 750		
	Furniture	Rs. 120	870	
To	Provision for Doubtful Debts		800	
To	Balance being profit carried to Capital A/c		2,830	
			15,000	15,000

Balance Sheet as on 31st December, 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
A. Adamjee.s Capital			Machinery	7,500	
on 1st January, 2008	29,100		Less : Depreciation	750	6,750
Add : Fresh Capital	6,000		Furniture	1,200	
Add : Profit for the year	2,830		Less : Depreciation	120	1,080
	37,930				
Less : Drawings	3,600	34,330	Stock-in-trade		5,700
			Sundry Debtors	17,600	
Sundry Creditors		7,900	Less : Provision for		
			Double Debts	800	16,800
			Investment		5,000
			Cash at Bank		6,400
			Cash in Hand		500
		42,230			42,230

Illustration 8

Mr. Anup runs a wholesale business where in all purchases and sales are made on credit. He furnishes the following closing balances:

	31-12-2007	31-12-2008
Sundry Debtors	70,000	92,000
Bills Receivable	15,000	6,000
Bills Payable	12,000	14,000
Sundry Creditors	40,000	56,000
Stock	1,10,000	1,90,000
Bank	90,000	87,000
Cash	5,200	5,300

Summary of cash transactions during 2007-2008:

(i) Deposited to bank after payment of shop expenses @ Rs. 600 p.m., wages @ Rs. 9,200 p.m. and personal expenses @ Rs. 1,400 p.m. Rs. 7,62,750.

(ii) Withdrawals Rs. 1,21,000.

(iii) Cash payment to suppliers Rs. 77,200 for supplies and Rs. 25,000 for furniture.

(iv) Cheques collected from customers but dishonoured Rs. 5,700.

(v) Bills accepted by customers Rs. 40,000.

(vi) Bills endorsed Rs. 10,000.

(vii) Bills discounted Rs. 20,000, discount Rs. 750.

(viii) Bills matured and duly collected Rs. 16,000.

(ix) Bills accepted Rs. 24,000.

(x) Paid suppliers by cheque Rs. 3,20,000.

(xi) Received Rs. 20,000 on maturity of one LIC policy of the proprietor by cheque.

(xii) Rent received Rs. 14,000 by cheque.

(xiii) A building was purchased on 30-11-2005 for opening a branch for Rs. 3,50,000 and some expenses were incurred details of which are not maintained.

(xiv) Electricity and telephone bills paid by cash Rs. 18,700, due Rs. 2,200:

Other transactions:

(i) Claim against the firm for damage Rs. 1,55,000 is under legal dispute. Legal expenses Rs.17,000. The firm anticipates defeat in the suit.

(ii) Goods returned to suppliers Rs. 4,200.

(iii) Goods returned by customers Rs. 1,200.

(iv) Discount offered by suppliers Rs. 2,700.

(v) Discount offered to the customers Rs. 2,400.

(vi) The business is carried on at the premises owned by the proprietor. 50% of the ground floor space is used for business and remaining 50% is let out for an annual rent of Rs. 20,000.

Prepare Trading and Profit & Loss A/c of Mr. Anup for the year ended 31-12-2008 and Balance Sheet as on that date.

Solution

Trading and Profit & Loss A/c of Mr. Anup
for the year ended 31-12-2008

	Rs.	Rs.		Rs.	Rs.
To Opening Stock		1,10,000	By Sales	9,59,750	
To Purchases	4,54,100		Less: Sales Return	1,200	9,58,550
Less: Purchases Return	4,200	4,49,900	By Closing Stock		1,90,000
To Gross Profit		5,88,650			
		11,48,550			11,48,550
To Wages		1,10,400	By Gross Profit		5,88,650
Electricity & Tel. Charges		20,900	By Discount		2,700
To Legal expenses		17,000			
To Discount		3,150			
To Shop exp.		7,200			

To Provision for claims for damages	1,55,000		
To Shop Rent (Notional)	20,000		
To Net Profit	2,57,700		
	5,91,350		5,91,350

Balance-Sheet as on 31-12-2008

Liabilities	Rs.	Rs.	Assets	Rs.
Capital A/c	2,38,200		Building	3,72,000
Add : Fresh capital introduced			Furniture	25,000
Maturity value from LIC	20,000		Stock	1,90,000
Rent	14,000		S. Debtors	92,000
Add : Notional Rent	20,000		Bills Receivable	6,000
Add : Net Profit	2,57,700		Cash at Bank	87,000
	5,49,900		Cash in Hand	5,300
Less : Drawing	16,800	5,33,100		
S. Creditors		56,000		
Bills Payable		14,000		
Outstanding expenses				
Legal Exp.	17,000			
Electricity &				
Telephone charges	2,200	19,200		
Provision for claims for damages		1,55,000		
		7,77,300		7,77,300

Working Notes :

Sundry Debtors A/c

Dr. Cr.

	Rs.		Rs.
To Balance b/d	70,000	By Bill Receivable A/c- Bills Accepted by customers	40,000
To Bill Receivable A/c-Bills Dishonoured	3,000	By Bank A/c - Cheque received	5,700
To Bank A/c-Cheque dishonoured	5,700	By Cash	8,97,150
To Credit sales (Balancing Figure)	9,59,750	By Return inward A/c	1,200
		By Discount A/c	2,400
		By Balance c/d	92,000
	10,38,450		10,38,450

Bills Receivable A/c

	Rs.		Rs.
To Balance b/d	15,000	By S. Creditors A/c	
To S. Debtors A/c Bills accepted	40,000	Bills endorsed	10,000
		By Bank A/c	19,250
		By Discount A/c (Bills discounted)	750
		By Bank (Bills Collected on Maturity)	16,000
		By S. Debtors	
		Bills dishonoured (Bal. Fig)	3,000
		By Balance c/d	6,000
	55,000		55,000

Sundry Creditors A/c

	Rs.		Rs.
To Bank	3,20,000	By Balance c/d	40,000
To Cash	77,200	By Credit purchase	
To Bill Payable A/c	24,000	(Balancing figure)	4,54,100
To Bill Receivable A/c	10,000		
To Return Outward A/c	4,200		
To Discount Received A/c	2,700		
To Balance b/d	56,000		
	4,94,100		4,94,100

Bills Payable A/c

	Rs.		Rs.
To Bank A/c Balance figure	22,000	By Balance b/d	12,000
To Balance c/d	14,000	S. Creditors A/c (Bills accepted)	24,000
	36,000		36,000

Summary Cash Statement

	Cash	Bank		Cash	Bank
	Rs.	Rs.		Rs.	Rs.
To Balance b/d	5,200	90,000	By Bank	7,62,750	
To S. Debtors (Bal. Fig)	8,97,150		By Cash		1,21,000
To Cash		7,62,750	By Shop exp.	7,200	
To Bank	1,21,000		By Wages	1,10,400	
			By Drawing A/c	16,800	

To S. Debtors		5,700	By Bills Payable		22,000
To Bills Receivable		19,250	By S. Creditors	77,200	3,20,000
To Bills Receivable		16,000	By Furniture	25,000	
To Capital (maturity value of LIC policy)		20,000	By S. Debtors		5,700
To Capital (Rent received)		14,000	By Electricity & Tel. Charges	18,700	
			By Building (Bal. fig)		3,72,000
			By Balance c/d	5,300	87,000
	10,23,350	9,27,700		10,23,350	9,27,700

Statement of Affairs as on 31-12-2007

Liabilities	Rs.	Assets	Rs.
S. Creditors	40,000	Stock	1,10,000
Bills Payable	12,000	Debtors	70,000
Capital: Balancing figure	2,38,200	Bills Receivable	15,000
		Cash at Bank	90,000
		Cash in Hand	5,200
	2,90,200		2,90,200

Illustration 9

AVL is an unemployed science graduate with typewriting qualification. Being unable to get employment for more than Rs. 500 p.m. he decided to start his own typewriting institute. He approached U.B.C. Bank which sanctioned him a loan of Rs. 20,000 on 1-1-2008. His father gifted him Rs. 5,000 on 1-1-2008. He purchased 6 typewriters worth Rs. 24,000.

Unable to understand the accounts properly, he seeks your help in preparing a Profit and Loss Account and Balance Sheet relating to the year ending 31-12-2008. His Pass Book reveals the following:

		Rs.
(a)	Expenses of the Institute	8,400
(b)	Salary to self	4,000
(c)	Monthly Fees Collected	32,700
(d)	Examination Fees Collected	4,200

The following are the additional details available:

(1) During the year AVL purchased a second-hand cycle costing Rs. 400 from a student who owed monthly fees of Rs. 100. The balance was paid. The cycle is used for the institute only.

(2) AVL helped a friend by encashing a cheque for Rs. 1,000 which was dishonoured. The friend has so far repaid only Rs. 400.

(3) AVL has taken Rs. 600 per month for personal expenses in addition to his salary.

(4) AVL runs the institute from his house for which a rent of Rs. 600 p.m. is paid. 50% may reasonably be allocated for his own living.

(5) The following are outstanding as at end of 31-12-2008

		Rs.
(a)	Fees Receivable	2,200
(b)	Expenses Payable	1,000
(c)	Salary to Self for Nov. and Dec.,	
(d)	Stock of stationery on hand	200

(6) Provide Depreciation 20% on typewriters and cycle.

(7) The loan from Bank is repayable at Rs. 500 p.m. from the beginning of July onwards. Interest is payable at 12% per annum in addition to instalments for principal.

(8) Assume that all transactions are routed through Bank and no cash is handled

Solution

Profit & Loss Account of AVL for the year ending 31st December, 2008

		Rs.	Rs.			Rs.
To	Sundry Expenses	8,400		By	Fees earned	35,000
	Add : Outstanding	1,000	9,400	By	Examination fee	4,200
To	Rent		3,600	By	Stock of Stationery	200
				By	Depreciation	
	Typewriters	4,800				
	Cycle	80	4,880			
“	Interest on Loan		2,295			
“	Net Profit transferred to Capital A/c		19,225			
			39,400			39,400

Balance Sheet of Mr. AVL as on 31st Dec., 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Capital	5,000				
Add : Net Profit	19,225		Typewriters	24,000	
	24,225		Less : Dep.	4,800	19,200
Less : Drawings	14,800	9,425	Cycle	400	
			Less : Dep.	80	320
Bank loan		17,000	Stock of stationery		200
Expenses payable		1,000	Fees receivable		2,200
			Loan to friend		600
			Cash at bank		4,905
		27,425			27,425

AVL has made a wise decision in starting the Institute. After starting the Institute AVL.s cash position as well as net profit position is better than the earning from employment.

Working Notes :

			Rs.
(i)	Fees earned		32,700
	Add :	Due on the closing date	2,200
		Adjustment in payment for cycle purchased	100
			35,000

		Rs.
(ii)	Interest on Bank Loan @ 12% p.a. on	
	Rs. 20,000 for Jan. to June	1,200
	Rs. 19,500 for July	195
	Rs. 19,000 for August	190
	Rs. 18,500 for September	185
	Rs. 18,000 for October	180
	Rs. 17,500 for November	175
	Rs. 17,000 for December	170
		2,295

(iii) **Bank Account**

		Rs.			Rs.
To	Capital A/c (Gift)	5,000	By	Typewriters	24,000
"	Bank Loan	20,000	"	Sundry Expenses	8,400
"	Students. fees	32,700	"	Drawings (salary)	4,000

"	Exam. fees	4,200	"	Cycle (Purchase)	300
"	Sundries (friend.s Cheque)	1,000	"	Advance (friend.s)	1,000
To	Advance (Recovered)	400	"	Sundries (friend.s cheque dishonoured)	1,000
			"	Drawings	7,200
			"	Rent Paid	7,200
			"	Bank loan (500 × 6)	3,000
			"	Bank Interest	2,295
			"	Balance c/d	4,905
		63,300			63,300

(iv)

Drawings Accounts

	Rs.		Rs.
To Rent	3,600	By Balance c/d	14,800
To Bank - Cash withdrawal	7,200		
To Bank - Taken as salary	4,000		
	14,800		14,800

(v) Salaries to proprietor is not considered as an item of expense. Profit is believed to be the product of capital, labour and management.

CHAPTER - 2

Investments Accounting

Illustration 1

Gaama Investment Company holds 1,000. 15% debentures of Rs. 100 each in Beta Industries Ltd. as on April 1, 2009 at a cost of Rs. 1,05.000 Interest IS payable on June, 30 and December. 31 each year.

On May 1, 2009, 500 debentures are purchased cum-interest at Rs. 53,500 On November 1, 2009, 600 debentures are sold ex-interest at Rs. 57,300 On November 30, 2009, 400 debentures are purchased ex- interest at Rs, 38.400. On December 31, 2009, 400 debentures are sold cum-Interest for Rs. 55,000.

Prepare the Investment account showing value of holdings on March 31, 2010 at cost, using FIFO method. (10+6 = 16 Marks)

Solution :

In the books of Gaama Investments Ltd.
Investment Account (15% Debentures in Beta Industries Ltd.)

Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs.	Date	Particulars	Nominal Value Rs.	Interest Rs.	Cost Rs
1.04.09	To Balance b/d (W.N.1)	1,00,000	3,750	1,05,000	30.06.09	By Bank A/c (W.N. 3)	-	11,250	-
1.05.09	To Bank A/c (W.N. 2)	50,000	2,500	51000	1.1109	By Bank A/c (W.N. 4)	60,000	3,000	57,300
30.11.09	To Bank A/c (W.N. 5)	40,000	2,500	38,400	11109	By Profit & Loss A/c (W.N. 11)			5,700
31.12.09	To Profit & Loss A/c (W.N. 12)			10,000	311209	By Bank A/c (W.N. 6&7)	40,000	3,000	52,000
31.03.10	To Profit & Loss A/c	-	18,625	-	311209	By Bank A/c (W.N. 8)	-	6,750	-
					31.03.10	By Bank A/c (W.N. 9 & 10)	90,000	3,375	89,400
		1,.90,000	27,375	2,04,400			1,90,000	27,975	2,04,400

Working Notes:

1. Accrued interest as on 1.4.09 = Rs. 1,00,000 x 5/100 x 3/12 = Rs. 3,750
2. Accrued interest = Rs. 50,000 x 15/100 x 4/12 = Rs. 2,500

   Cost of investment for purchase on 1.5.09 = Rs. 53,500 - Rs. 2,500 = Rs. 51,000
3. Interest received = Rs. 1,50,000 x 15/100 x 6/12 = Rs. 11,250
4. Accrued interest = Rs.60,000 x 15/100 x 4/12 = Rs. 3,000
5. Accrue Interest = Rs.40,000 x 15/100 x 5/12 = Rs. 2,500

6. Accrued interest = Rs. 40,000 x 15/100 x 6/12 = Rs. 3,000

7. Sale price of investment on 31.12.09 = Rs. 55,000 - Rs. 3,000 = Rs. 52,000

8. Accrued interest = Rs. 90,000 x 15/100 x 6/12 = Rs. 6,750

9 Accrued interest = Rs. 90,000 x 15/100 x 3/12 = Rs. 3,375

10. Cost of investment as on 31.3.10 = Rs. 51,000 + Rs. 38,400 = Rs. 89,400

11. Loss on debentures sold on 1.11.2009:

Sales price of debentures	Rs. 57,300
Less: Cost of investment sold = Rs. 1,05,000/1000 x 600	Rs. 63,000
Loss on sales	(Rs. 5,700)

12. Profit on debentures sold on 31.12.2009:

Sales price of debentures	Rs. 52,000
Less: Cost of investment sold = Rs. 1,05,000/1000 x 400	Rs. 42,000
Profit on sales	(Rs. 10,000)

CHAPTER - 3

Hire Purchase Accounts

Illustration 1

Mahalaxmi Traders has bought three computers since 2005. All are subject to hire purchase agreements with the vendor. XYZ Ltd. Data relating to the computers are as follows :

Particulars	Computer A	Computer B	Computer C
Date of purchase	30.6.2005	31.3.2006	31.3.2007
Cash price	Rs. 80,000	Rs. 60,000	Rs. 60,000
Deposit	Rs. 10,400	Rs. 7,200	Rs. 7,200
Total Interest	Rs. 19,200	Rs. 13,200	Rs. 8,000
Number of quarterly Installments	12	12	8

The hire purchase agreements state that the first quarterly installment is due three months after the date of purchase. It is the firm's policy to assume that hire purchase interest accrues evenly over the life of the agreement and to credit the total hire purchase price to the vendor at the date of purchase. A Hire Purchase Interest Suspense Account is maintained.

The accounting year of the firm ends on 31st December. Depreciation on computers is at 20% p.a. on the written down value. A full year's depreciation is charged against profit in the year of purchase.

Prepare the following ledger accounts for the years ended 31.12.2005, 31.12.2006 and 31.12.2007 : (a) Computers; (b) Provision for Depreciation on Computers; (c) XYZ Limited; (d) Hire Purchase Interest Suspense.

Solution :

In the books of Mahalaxmi Traders

Dr. **(a) Computers Account** **Cr.**

Date	Particulars	Rs.	Date	Particulars	Rs.
2005			2005		
Jun 30	To XYZ Ltd. A/c.	80,000	Dec. 31	By Balance c/d	80,000
2006			2006		
Jan 1	To Balance b/d	80,000	Dec. 31	By Balance c/d	1,40,000
Mar 31	To XYZ Ltd. A/c.	60,000			
		1,40,000			1,40,000
2007			2007		
Jan 1	To Balance b/d	1,40,000	Dec. 31	By Balance c/d	2,00,000
Mar 31	To XYZ Ltd. A/c.	60,000			
		2,00,000			2,00,000

Dr.	(b) Provision for Depreciation on Computers Account				Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
2005			2005		
Dec. 31	To Balance c/d	16,000	Dec. 31	By Depreciation A/c. (20% on	
2006			2006	Rs. 80,000)	16,000
Dec. 31	To Balance c/d	40,800	Jan 1	By Balance b/d	16,000
2007			Dec 31	By Depreciation A/c.	24,800
			2007	[20% on Rs. (1,40,000-16,000)]	
		40,800			40,800
Dec 31	To Balance c/d	72,640	Jan 1	By Balance b/d	40,800
				By Depreciation A/c.	31,840
				[20% on Rs. (2,00,000-40,800)]	
		72,640			72,640

(c) The amount of the installments is as under :

$$\frac{\text{Cash Price + Total Interest - Deposit Paid}}{\text{Number of Installments}} = \text{Quarterly Installment}$$

$$\text{Computer A - } \frac{\text{Rs. } (80{,}000 + 19{,}200 + 10{,}400)}{12} = \text{Rs. } 7{,}400\ ;$$

$$\text{Computer B - } \frac{\text{Rs. } (60{,}000 + 13{,}200 + 7{,}200)}{12} = \text{Rs. } 5{,}500\ ;$$

$$\text{Computer C - } \frac{\text{Rs. } (60{,}000 + 8{,}000 + 7{,}200)}{8} = \text{Rs. } 7{,}600\ ;$$

Number of installments in each accounting year is as under :

	2005	**2006**	**2007**
Computer A	2	4	4
Computer B	--	3	4
Computer C	--	--	3

Dr. XYZ Limited Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2005			2005		
Jun 30	To Bank A/c. (Deposit A)	10,400	Jun 30	By Computers A/c.	80,000
Sep 30	To Bank A/c. (Installment A)	7,400	"	By HP Interest Suspense A/c.	19,200
Dec. 31	To Bank A/c. (Installment A)	7,400			
"	To Balance c/d	74,000			
		99,200			99,200
2006			2006		
Mar 31	To Bank A/c. (Installment A)	7,400	Jan 1	By Balance b/d	74,000
"	To Bank A/c. (Deposit B)	7,200	Mar 31	By Computers A/c.	60,000
Jun 30	To Bank A/c.(Installment A&B)	12,900	"	By HP Interest Suspense A/c.	13,200
Sep 30	To Bank A/c.(Installment A&B)	12,900			
Dec 31	To Bank A/c.(Installment A&B)	93,900			
		1,47,200			1,47,200
2007		2007			
Mar 31	To Bank A/c.(Installment A&B)	12,900	Jan 1	By Balance b/d	93,900
"	To Bank A/c. (Deposit C)	7,200	Mar 31	By Computers A/c.	60,000
Jun 30	To Bank A/c.(Installment A,B&C)	20,500	"	By HP Interest Suspense A/c.	8,000
Sep 30	To Bank A/c.(Installment A,B&C)	20,500			
Dec 31	To Bank A/c.(Installment A,B&C)	20,500			
"	To Balance c/d	80,300			
		1,61,900			1,61,900

Dr. d) Hire Purchase Interest Suspense Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
2005			2005		
Jun 30	To XYZ Ltd. A/c.	19,200	Dec 31	By Profit & Loss A/c. (Note 1)	3,200
		-	"	By Balance c/d	16,000
		19,200			19,200
2006			2006		
Jan 1	To Balance b/d	16,000	Dec. 31	By Profit and Loss A/c. (Note 2)	9,700
Mar 31	To XYZ Ltd. A/c.	13,200	"	By Balance c/d	19,500
		29,200			29,200
2007			2007		
Jan 1	To Balance b/d	19,500	Dec 31	By Profit and Loss A/c. (Note 3)	13,800
Mar 31	To XYZ Ltd. A/c.	8,000	"	By Balance c/d	13,700
		27,500			27,500

Working Notes :		**Rs.**
(1)	**2005 –** Computer A : Rs. 19,200 × 2/12	3,200
(2)	**2006 –** Computer A : Rs. 19,200 × 4/12	6,400
	Computer B : Rs. 13,200 × 3/12	3,300
		9,700
(3)	**2007 –** Computer A : Rs. 19,200 × 4/12	6,400
	Computer B : Rs. 13,200 × 4/12	4,400
	Computer C : Rs. 8,000 × 3/8	3,000
		13,800

Illustration 2

M/s. India Motors Ltd. sells scooters under the hire purchase system. Their payment for the sale of scooter is Rs. 1,000 on delivery, Rs. 1,040 at the end of the first year, Rs. 960 at the end of the second year, and Rs. 880 at the end of the third year, inclusive of finance charges. Calculate the interest. Payment of principal in each installment is same.

Solution :

Let x = cash price included in each installment and i = interest included in each installment.

x + i = Rs. 880…(i)

x + 2i = Rs. 960…(ii)

x + 3i = Rs. 1,040… (iii)

By adding equations (i) and (ii), we get 2x + 3i = Rs. 1,840…(iv)

By subtracting (iii) from (iv) we get

$$\begin{array}{rcl} 2x + 3i & = & \text{Rs. } 1,840 \\ -x + 3i & = & \text{Rs. } 1,040 \\ \hline x & = & \text{Rs. } 800 \\ \hline \end{array}$$

Therefore, the cash price included in each installment = **Rs. 800**.

Details of each installment is given in the following table : (in rupees)

	Installment [1]	Cash price included in each installment [2]	Interest [1 – 2]
Down payment	1,000	1,000	Nil
1st installment	1,040	800	240
2nd installment	960	800	160
3rd installment	880	800	80
Total	3,880	3,400	480

Illustration 3

Krishna Agencies started business on 1st April, 1994. During the year ended 31st March, 1995, they sold under-mentioned durables under two schemes — Cash Price Scheme (CPS) and Hire-Purchase Scheme (HPS).

Under the CPS they priced the goods at cost plus 25% and collected it on delivery.

Under the HPS the buyers were required to sign a Hire-purchase Agreement undertaking to pay for the value of the goods including finance charges in 30 instalments, the value being calculated at Cash Price plus 50%.

The following are the details available at the end of 31st March, 1995 with regard to the products :

Product	**Nos. purchased**	**Nos. sold under CPS**	**Nos. sold under HPS**	**Cost per unit Rs.**	**No. of instalments due during the year**	**No. of instalments received during the year**
TV sets	90	20	60	16,000	1,080	1,000
Washing Machines	70	20	40	12,000	840	800

The following were the expenses during the year :

	Rs.
Rent	1,20,000
Salaries	1,44,000
Commission to Salesmen	12,000
Office Expenses	1,20,000

From the above information, you are required to prepare: (Single column)

(a) Hire-purchase Trading Account, and

(b) Trading and Profit & Loss Account.

Solution :

In the books of Krishna Agencies
Hire-Purchase Trading Account
for the year ended 31st March, 1995

	Rs.	Rs.		Rs.	Rs.
To Goods sold on H.P. A/c:			By Bank A/c cash received		
TVs			TVs		
(60×Rs. 30,000)	18,00,000		(1,000×Rs. 1,000)	10,00,000	
Washing Machines					
(40 × Rs. 22,500)	9,00,000	27,00,000	Washing Machines		
			(800 ×Rs. 750)	6,00,000	16,00,000
To H.P. Stock Reserve			By Instalment Due A/c:		
Rs. 9,90,000×$\frac{87.5}{187.5}$		4,62,000	TVs		
			(80×Rs.1,000)	80,000	
To Profit & Loss A/c		7,98,000	Washing Machines		
(H.P. profit transferred)			(40×Rs. 750)	30,000	1,10,000
			By Goods sold on HP A/c: (Cancellation of loading)		
			Rs. 27,00,000×$\frac{87.5}{187.5}$		12,60,000
			By H.P. Stock (W.N 2)		9,90,000
		39,60,000			39,60,000

Trading and Profit & Loss Account
for the year ended 31st March, 1995

	Rs.	Rs.		Rs.	Rs.
To Purchases:			By Sales:		
TVs			TVs		
(90×Rs. 16,000)	14,40,000		(20×Rs. 20,000)	4,00,000	
Washing Machines					
(70 × Rs. 12,000)	8,40,000	22,80,000	Washing Machines		
			(20 ×Rs. 15,000)	3,00,000	7,00,000
To Gross profit c/d		1,40,000	By Goods sold on H.P. A/c (27,00,000–12,60,000)		14,40,000
			By Shop Stock (W. N 3)		2,80,000
		24,20,000			24,20,000
To Salaries		1,44,000	By Gross profit b/d		1,40,000
To Rent		1,20,000	By H.P. Trading a/c		
To Commission		12,000	(H.P. Profit)		7,98,000
To Office expenses		1,20,000			
To Net Profit		5,42,000			
		9,38,000			9,38,000

Working Notes:

(1) Calculation of per unit cash price, H.P. price and Instalment Amount :

Product	Cost Rs.	Cash Price Rs. (Cost × 1.25)	H.P. price Rs. (Cash Price×1.50)	Instalment Amount (Rs.) (H.P. price/No. of instalments)
TV sets	16,000	20,000	30,000	1,000
Washing Machines	12,000	15,000	22,500	750

(2)Calculation of H.P. Stock as on 31st March, 1995 :

Product	Total No. of Instalments (Nos.)	Instalments Due in 1994-95 (Nos.)	Instalments not due in 1994-95 (Nos.)	Amount Rs.
TV sets	1800	1080	720	7,20,000
Washing Machines	1,200	840	360	2,70,000
				9,90,000

(3) Calculation of Shop Stock as on 31st March, 1995 :

Product	Purchased (Nos.)	Sold (Nos.)	Balance (Nos.)	Amount Rs.
TV sets	90	80	10	1,60,000
Washing Machines	70	60	10	1,20,000
				2,80,000

Illustration 4

A firm acquired two tractors under hire purchase agreements, details of which were as follows:

Date of Purchase	Tractor A 1st April, 2007 Rs.	Tractor B 1st Oct., 2007 Rs.
Cash price	14,000	19,000
Deposit	2,000	2,680
Interest (deemed to accrue evenly over the period of agreement)	2,400	2,880

Both agreements provided for payment to be made in twenty-four monthly instalments, commencing on the last day of the month following purchase, all instalments being paid on due dates.

On 30th June, 2008, Tractor B was completely destroyed by fire. In full settlement, on 10th July, 2008 an insurance company paid Rs. 15,000 under a comprehensive policy out of which Rs. 10,000 was paid to the hire purchase company in termination of the agreement. Any balance on the hire purchase company's account in respect of these transactions was to be written off.

The firm prepared accounts annually to 31st December and provided depreciation on tractors on a straight-line basis at a rate of 20 per cent per annum rounded off to nearest ten rupees, apportioned as from the date of purchase and up to the date of disposal.

You are required to record these transactions in the following accounts, carrying down the balances on 31st December, 2007 and 31st December, 2008:

(a) Tractors on hire purchase.

(b) Provision for depreciation of tractors.

(c) Disposal of tractors.

(d) Hire purchase company.

Solution

(a)

Hire Purchase accounts in the buyer's books

Tractors on Hire Purchase A/c

				Rs.					Rs.
2007				Rs.	2007				Rs.
April 1	To	HP Co. - Cash price		14,000	Dec. 31	By	Balance c/d		
							Tractor A	14,000	
Oct. 1	”	HP Co. - Cash price					Tractor B	19,000	33,000
		Tractor B		19,000					
				33,000					33,000
2008				Rs.	2008				Rs.
Jan. 1	To	Balance b/d			June30	By	Disposal of		
		Tractor A	14,000				Tractor A/c - Transfer		19,000
		Tractor B	19,000	33,000	Dec. 31	”	Balance c/d		14,000
				33,000					33,000
2009									
Jan. 1	To	Balance b/d		14,000					

(b)

Provision for Depreciation of Tractors A/c

Date		Particulars	Rs.	Date		Particulars		Rs.
2007			Rs.	2007				Rs.
Dec. 31	To	Balance c/d	3,050	Dec. 31	By	P & L A/c :		
						Tractor A	2,100	
						Tractor B	950	3,050
			3,050					3,050
2008				2008				
June 30	To	Disposal of Tractor account—Transfer	2,850	Jan. 1	By	Balance b/d		3,050
Dec. 31	”	Balance c/d	4,900	Jun. 30	”	P & L A/c (Depn. for Tractor B)		1,900
				Dec. 31	”	P & L A/c (Depn. for Tractor A)		2,800
			7,750					7,750
				2009				
				Jan. 1	By	Balance b/d		4,900

(c)

Disposal of Tractor A/c

Date		Particulars	Rs.	Date		Particulars	Rs.
2008			Rs.	2008			Rs.
June 30	To	Tractors on hire purchase—Tractor B	19,000	June30	By	Provision for Depn. of Tractors A/c	2,850
				July 10	”	Cash : Insurance	15,000
				Dec. 31	”	P & L A/c : Loss	1,150
			19,000				19,000

Hire Purchase Co. A/c

Date		Particulars	Rs.	Date		Particulars		Rs.
2007			Rs.	2007				Rs.
April 1	To	Cash (deposit for Tractor A)	2,000	April 1	By	Tractors on Hire Purchase A/c - Tractor A		14,000
April Sept.	”	Cash—6 instal-ments @ Rs. 600	3,600	Oct. 1	”	Tractors on Hire Purchase A/c - Tractor B		19,000
Oct. 1	”	Cash—deposit for Tractor B	2,680	Dec. 31	”	Interest A/c :		
Oct. - Dec.	”	Cash—3 instal-ments @ Rs. 600 for For Tractor A	1,800			Tractor A @ Rs. 100 for 9 months Rs.	900	
	”	Cash—3 instal-ments @ Rs. 800	2,400			For Tractor B @ Rs. 120 for 3 months Rs.	360	1,260
Dec. 31	”	Balance c/d	21,780					
			34,260					34,260

2008				2008			
Jan.	To	Cash—6 instalments @ Rs. 600 for Tractor A	3,600	Jan. 1	By	Balance b/d	21,780
June	”	Cash—6 instalments @ Rs. 800 for Tractor B	4,800	Jun. 30	”	Interest A/c—for Tractor B @ Rs. 120 for 6 months	720
July 10	”	Cash - final instalment for Tractor B	10,000	Dec. 31	”	Interest - for Tractor A @ Rs. 100 for 12 months	1,200
July-	”	Cash - 6 instalments @ Rs. 600 for Tractor A	3,600				
Dec.	”	Balance c/d 1,500					
	”	P & L A/c—unpaid amount	200				
			23,700				23,700

Illustration 5

X Transport Ltd. purchased from Delhi Motors 3 Tempos costing Rs. 50,000 each on the hire purchase system on 1-1-2006. Payment was to be made Rs. 30,000 down and the remainder in 3 equal annual instalments payable on 31-12-2006, 31-12-2007 and 31-12-2008 together with interest @ 9%. X Transport Ltd. write off depreciation at the rate of 20% on the diminishing balance. It paid the instalment due at the end of the first year i.e. 31-12-2006 but could not pay the next on 31-12-2007. Delhi Motors agreed to leave one Tempo with the purchaser on 1-1-2008 adjusting the value of the other 2 Tempos against the amount due on 31-12-2007. The Tempos were valued on the basis of 30% depreciation annually. Show the necessary accounts in the books of X Transport Ltd. for the years 2006, 2007 and 2008.

Solution

X Transport Ltd.

Tempo Account

Dr.							Cr.
2006			Rs.	2006			Rs.
Jan. 1	To	Delhi Motors	1,50,000	Dec. 31	By	Depreciation A/c : 20% on 1,50,000	30,000
					”	Balance c/d	1,20,000
			1,50,000				1,50,000

2007				2007			
Jan. 1	To	Balance b/d	1,20,000	Dec. 31	By	Depreciation A/c	24,000
					”	Delhi Motors A/c (Value of 2 tempos taken away)	49,000
					”	Profit and Loss A/c (balancing figure)	15,000
					”	Balance c/d (Value of one tempo left)	32,000
			1,20,000				1,20,000
2008				2008			
Jan. 1	To	Balance b/d	32,000	Dec. 31	By	Depreciation A/c	6,400
					”	Balance b/d	25,600
			32,000				32,000

Delhi Motors Account

2006			Rs.	2006			Rs.
Jan. 1	To	Bank (Down Payment)	30,000	Jan. 1	By	Tempos A/c	1,50,000
Dec. 31	”	Bank	50,800	Dec. 31	”	Interest (9% on Rs. 1,20,000)	10,800
	”	Balance c/d	80,000				
			1,60,800				1,60,800
2007				2007			
Jan. 1	To	Tempo	49,000	Jan. 1	By	Balance b/d	80,000
Dec. 31	”	Balance c/d	38,200	Dec. 31	”	Interest (9% on Rs. 80,000)	7,200
			87,200				87,200
2008			Rs.	2008			Rs.
Dec. 31	To	Bank	41,638	Jan. 1	By	Balance b/d	38,200
				Dec. 31	”	Interest (9% on Rs. 38,200)	3,438
			41,638				41,638

Working Notes :

(1) Value of a Tempo left with the buyer:

	Rs.
Cost	50,000
Depreciation @ 20% p.a. under WDV method for 2 years i.e. Rs.10,000 + Rs.8,000	18,000
Value of the Tempo left with the buyer at the end of 2nd year	32,000

(2) Value of Tempos taken away by the seller:

	Rs.
No. of tempos Two	
Cost Rs. 50,000 × 2 =	1,00,000
Depreciation @ 30% Under WDV method for 2 years i.e. Rs. 30,000 + Rs. 21,000	51,000
Value of tempos taken away at the end of 2nd year	49,000

Illustration 6

Easy Payment Ltd. Commenced business on April 1, 2008 as suppliers of refrigerators. All sales were on hire purchases terms.

When the annual accounts for the year ended 31st March, 2009 were prepared, it was decided to takes credit for the gross profit, including interest, in proportion to the insta1ments collected.

Throughout 2008-09 and 2009-2010, the total price (including interest) charged to every customer was 50% above the cost the goods, or in the case of repossessed goods mentioned below, 50% above the value at which these goods were taken back into stock. The hire purchases contracts did not require any deposits but provided for payments to be spread over a period of 12 months, by twelve equal monthly installments. The personal accounts of customers which were treated as memorandum records, were debited with the total price and credited with installments received. The following balances were extracted as on March, 31, 2010:-

	Rs.	**Rs.**
Authorised and Subscribed Share Capital (Rs. 10 fully paid shares)		3,50,000
Fixed Assets: Cost	1,00,000	
Depreciation to March 31, 2009		10,000
Hire purchase installments *less* provision for unrealised profit, March 31, 2009	2,83,500	
Stock on March 31, 2009	66,000	
Purchases	5,90,000	
Cash received from customers		8,06,250
Balance at Bank	65,000	
Creditors		48,600
General Expenses	1,61,500	
Profit and Loss Account		51,150
	12,66,000	12,66,000

Sales (total price, including interest) for the year ended 31st March, 2010 were Rs. 9,46,500.

When the annual accounts for the year ended 31 st March, 2010 were prepared, it was decided to adopt the principle of taking credit for the full profit (including interest) on the sale for the year *less* a provision of 12 per cent of the installments unpaid at the end of each year.

In January 2010, the company took repossession of some goods which cost Rs. 96,000 and had been sold earlier in the year. The unpaid installments on these goods amounted to Rs. 24,000 in respect of which nothing was recovered apart from the goods, which were taken back into stock at a valuation of Rs. 16,000. The repossessed goods were sold before the end of the year. The total selling prices both on the original sale and on the resale of these goods, are included in the sales for 2009-2010 (Rs. 9,46,500) stated above. Apart from this matter, all installments were paid punctually. Provision for depreciation on fixed assets is to be at the rate of 10% p.a. on cost.

You are required to prepare:

(a) Trading and Profit and Loss Account for the year ended 31st March, 2010;

(b) The Balance Sheet as on March 31, 2010; and

(c) A summary of the Debtors' Ledger Control Account for the year ended 31st March, 2010.

Solution:

Before Trading A/c is prepared, it is necessary to prepare a statement showing closing stock, Thus-

		Rs.	Rs.
Opening stock			66,000
Purchases			5,90,000
			6,56,000
Less:	Cost of sales: Sales	9,46,500	
	Less: Sale of repossessed stock Rs. 16,000 +50%	24,000	
		9,22,500	
	Less: 33 ½ % Profit	3,07,500	6,15,000
	Closing stock at Cost		41,000

EASY PAYMENTS LTD.

Trading and Profit and Loss Account for the year ended March 31, 2010

Dr.	Rs.	Rs.		Rs.	**Cr.** Rs.
To Opening Stock		66,000	By Sales (including Interest)	9,46,500	
To Purchases		5,90,000	*Less:* Unpaid instalments on		
To Gross Profit including Interest		3,07,000	goods taken into stock	24,000	9,22,500
			By Closing Stock		41,000
		9,63,500			963500
To General Expenses		1,61,500	By Gross Profit including Interest		3,07,500
To Reserve on unpaid instalments:			By Profit due to change in methods:		
12% on 5,41,500	64,980		33 1/3% on Rs. 4,25,250	1,41,750	
Less: 12% on 4,25,250			*Less:* 12% on Rs. 4,25,250	51,030	90,720
Opening debtors	51,030	13,950	(adjusted contra)		
To Depreciation		10,000			
To Net Profit		2,12,770			
		3,98,220			3,98,220

The trial balance gives the cost of instalments due less provision for unrealised profit as Rs. 2,83,500. The total amount due must; therefore, be Rs. 2,83,500+50% or Rs. 4,25,250. On 31st March, 2009 the provision in respect of unpaid instalments was Rs. 1,41,750. If the present practice had been adopted, the provision would have been only 12% of Rs. 4,25,250 or Rs. 51,030.

Balance Sheet of Easy Payments Ltd. as on March 31, 2010

Liabilities		Rs.	Assets		Rs.
Capital:			**Fixed Assets:**		
Authorised & Subscribed:			Cost	1,00,000	
35,000 shares of			*Less:* Depreciation		
Rs. 10 each, fully paid		3,50,000	written off to date	20,000	80,000
Profit & Loss Account:			**Current Assets:**		
Previous balance	51,150		Stock, at cost		41,000
This year's profit	2,12,770	2,63,920	Instalments unpaid	5,41,500	
Sundry Creditors		48,600	*Less:* Provision @ 12%	64,980	4,76,520
			Balance at Bank		65,000
		6,62,520			6,62,520

Summary of Debtors Ledger Control Account
for the year ended 31st March, 2010

	Rs.		Rs.
To Balance b/fd	4,25,250	By Cash	8,06,250
To Hire Purchase Sales	9,46,500	By Goods Repossessed A/c (instalments unpaid)	24,000
		By Balance c/d	5,41,500
	13,71,750		13,71,750
To Balance b/d	5,41,500		

Illustration 7

Sonam Corporation sells goods on hire purchase basis. The hire purchase price is cost plus 50%, From the following particulars prepare Hire Purchase Trading Account for the year ended 31st March, 2010:

Instalments not yet due on 01-04-09	3,00,000
Instalments due on 01-04-09	1,50,000
Goods sold on hire purchase during the year	9,00,000
Instalments collected from HP debtors	6,80,000
Stock with customers at hire purchase price	4,50,000
Goods re-possessed during the year	60,000
On 37-03-2010 Goods repossessed were valued at	Cost less 40%

Solution :

Hire Purchase Trading Account for the year ended 31.03.2010

To Opening balance:		By	Hire purchase stock	
Hire purchase stock	3,00,000		reserve (opening)	1,00,000
Hire purchase debtors	1,50,000	By	Bank (Installments Collected)	6,80,000
To Goods sold on hire purchase	9,00,000	By	Goods re- possessed (W.N.3)	24,000
To Hire purchase stock		By	Goods sold on hire	
reserve (closing)	1,50,000		purchase (loading)	3,00,000
To Profit and Loss A/c	2,14,000	By	Closing balances:	
			Hire purchase stock	4,50,000
		By	Hire purchase	
			debtors (W.N. 2)	1,60,000
	17,14,000			17,14,000

Working Notes:

1. Memorandum Hire Purchase Stock A/c

To Balance b/d	3,00,000	By	Hire purchase debtors A/c	7,50,000
To Good sold on Hire	9,00,000		(Bal. fig.)	
		By	Balance c/d	4,50,000
	12,00,000			12,00,000

2. Memorandum Hire Purchase Debtors A/c

To Balance b/d	1,50,000	By Bank / Cash	6,80,000
To Hire purchase stock A/c (W.N.1)	7,50,000	By Goods repossessed	60,000
		By Balance c/d (Bal. fig.)	1,60,000
	9,00,000		9,00,000

(3) Value of goods repossessed: (60,000 $\times \frac{100}{150} \times \frac{60}{100}$ = 24,000

Note: It is assumed that figures given in the question are at invoice price.

Illustration 8

(a) Easilife Ltd. has a hire-purchase department which fixes hire-purchase price by adding 40% to the cost of the goods. The following additional information is provided to you

	Rs.
On 1st April, 2009	
Goods out on hire-purchase (at hire-purchase price)	2,10,000
Instalments due	14,000
Transactions during the year:	
Hire-purchase price of goods sold	9,80,000
Instalments received	8,12,000
Value of goods repossessed due to defaults	
(hire-purchase instalments unpaid Rs. 5,600)	7,800
On 31st March, 2010	
Goods out 0/7 hire-purchase (at hire-purchase price)	3,78,000

You are required to prepare Hire-purchase Trading Account. ascertaining the profit made by the department during the year ended 31S1 March. 2010.

Solution :

Easilife Ltd.
Hire Purchase Trading Account

	Rs.		Rs.
To Opening Balances:		By Opening hire purchase	
Hire purchase stock	2,10,000	stock reserve A/c (WN.1)	60,000
installments due	14,000	By Bank A/c	8,12,000
To Goods sold on hire purchase A/c	9,80,000	(Instalments received)	
To Closing hire purchase		By Goods repossessed A/c	7,800
stock reserve A/c (W.N.3)	1,08,000	By Goods sold on hire purchase	
To Profit and loss A/c	2,34,200	A/c (Loading) (WN. 2)	2,80,000
(Transfer of profit)		By Closing Balances:	
		Hire purchase stock	3,78,000
		installments due (W.N. 4)	8,400
	15,46,200		15,46,200

Working Notes:

			Rs.
1	Opening hire purchase stock reserve = Rs.2,10,000 x 40/140		60,000
2.	Loading on goods sold = Rs. 9,80,000 x 40/140		2,80, 000
3.	Closing hire purchase stock reserve = Rs. 3,78,000 x 40/140		1,08,000
4.	Closing installments due:		
	Opening hire purchase stock		2,10,000
	Opening instalments due		14,000
	Good sent on hire purchase		9,80,000
			12,04,000
	Less: Instalments received	8,12,000	
	Unpaid instalments on repossessed goods	5,600	
	Closing hire purchase stock	3,78,000	(11,95,600)
			8,400

CHAPTER - 4

Insurance Claim

Illustration 1.

On 31st August, 1999 the premises and stock of a firm were totally destroyed by fire; the books of accounts, however, were saved. In order to make a claim on their fire policy, they ask you to advice on the basis of the following information. The stock in hand has always been valued at 5% less.

	1996-97 Rs. ('000)	1997-98 Rs. ('000)	1998-99 Rs. ('000)	1999-2000 Rs. ('000)
Opening stock as valued	22,80	30,40	36,10	39,90
Purchases *less* returns	91,00	1,10,00	1,20,00	41,00
Sales *less* return	1,40,00	1,70,00	1,86,00	75,00
Wages	28,40	31,20	32,00	12,00
Closing stock	30,40	36,10	39,90	?

Prepare a statement for submission to the insurance company in support of your claim for loss of stock. The company closes its books of account every year on 31st March.

Solution:

Correct values of stock on:

1st April, 1996	= (100/95) x Rs. 22,80,000	= Rs. 24,00,000
1st April, 1997	= (100/95) x Rs. 30,40,000	= Rs. 32,00,000
1st April 1998	= (100/95) x Rs. 36,10,000	= Rs 3800000
1st April, 1999	= (100/95) x Rs.39,90,000	= Rs. 42,00,000

Trading Account for the year ended 31st March

	1997 Rs. ('000)	1998 Rs. ('000)	1999 Rs. ('000)		1997 Rs. ('000)	1998 Rs. ('000)	1999 Rs. ('000)
To Opening Stock				By Sales			
at cost	24,00	32,00	38,00	Less: returns	1,40,00	1,70,00	186,00
To Purchase				By Closing stock			
Less: returns	91,00	1,10,00	1,20,00	at cost	32,00	38,00	42,00
To Wages	28,40	31,20	32,00				
To Gross Profit	28,60	34,80	38,00				
	1,72,00	2,08,00	2,28,00		1,72,00	2,08,00	2,28,00

Ratio of gross profit to sales:

For the year 1996-97 = (28,60,000/ 1,40,00,000) x 100 = 20.43%
For the year 1997-98 = (34,80,000/ 1,70,00,000) x 100 = 20.47%
For the year 1998-99 = (38,00,000/ 1,86,00,000) x 100 = 20.43%

20.4% may be taken to be gross profit ratio.

Memorandum Trading Account from 1st April 1999 to 31st August, 1999

Dr.	Rs. ('000)		Cr. Rs. ('000)
To Opening stock, at cost	42,00	By Sales less returns	75,00
To Purchases less returns	41,00	By Stock on the date of fire,	
To Wages	12,00	balancing figure	35,30
To Gross profit			
20.4% of Rs. 75,00 thousand	15,30		
	1,10,30		1,10,30

Thus, Claim for loss of stock may be made for Rs. 35,30,000.

Illustration 2.

Cee Ltd., which operates a wholesale warehouse, had a fire on premises on 30th April, 2000, which destroyed most of the building, although stock to the value of Rs. 3,960 was salvaged. The company has an insurance policy (with suitable average clauses) covering stock, for Rs. 6,00,000, building for Rs. 8,00,000, and loss of profits including standing charges for Rs. 2,50,000 with a six month period of indemnity.

The company's last Profit & Loss Account, for the year ended 31st March 2000, showed the following position: -

Dr.	Rs.		Cr. Rs.
To Opening Stock	4,12,500	By Sales	20,00,000
To Purchases	18,12,500	By Stock	5,25,000
To Insured Standing Charges	1,67,500	By Interest	5,000
To Other Expenses	80,000		
To Net Profit for the year	57,500		
	25,30,000		25,30,000

The company's records show that the sales for April, 2000 had been the same as for the corresponding month in the previous year at Rs. 1,00,000, payments made to trade creditors in April were Rs. 1,06,680 and at the end of that month the balances owing to trade creditors had increased by Rs. 3,320. The company's business was disrupted until the end of July, during which period turnover fell by Rs. 1,80,000 compared with the same period in the previous year. It was agreed that three-quarters of the value of the building had been lost and that at the time of the fire, it had been worth Rs. 10,00,000.

Ascertain the amount of various claims to be lodged with insurers.

Solution:

(i) Loss of Stock:

Trading A/c

Dr.	**Rs.**		**Cr.** **Rs.**
To Opening Stock	5,25,000	By Sales	1,00,000
To Purchases	1,10,000	By Closing Stock	
To Gross Profit @ 15% on		(balancing figure)	5,50,000
sales of Rs. 1,00,000	15,000		
	6,50,000		6,50,000

	Rs.
Gross profit shown by last year's accounts is Rs. 3,00,000 or 15% of sales.	
Estimated stock at the time of fire	5,50,000
Less: Salvaged stock	3,960
Loss of stock	5,46,040

(ii) Building:

Three-quarters of Rs. 10,00,000 — 7,50,000

The building was under-insured, as the insurance cover was for Rs. 8,00,000 only: therefore the amount to be claimed is 4/5 of Rs. 7,50,000 or — 6,00,000

(iii) Loss of profit:

Indemnity period: May 1 to July 31 or 3 months

gross profit ratio for the year ending 31st March, 2000

$$\frac{\text{Net Profit + Insured standing charges}}{\text{Sales}} \times 100$$

$$\text{or } \frac{52,500\ * + 1,67,500}{20,00,000} \times 100 = 11\%$$

As short sales are Rs. 1,80,000, claim for loss of profit will be Rs. 19,800.

Note: Interest income is not an ordinary business.

Illustration 3

Stores Ltd. which runs a boutique makes up its accounts annually to 31st March year ended March 31, 1999 the Profit and Loss Account was summarised as follows:-

	Rs.	Rs.
Sales		21,60,000
Less: Cost of Sales (net after discount received)	9,38,400	
Wages	4,80,000	14,18,400
Gross Profit		7,41,600
Less: Fixed Charges (including shop assistants' salary)		5,41,600
Net Profit		2,00,000

On December 1, 1999 a fire occurred as a result of which no trading was possible till April 1, 2000.

On that date half the shop was reopened for business; the other half reopened on 1st June, 2000. The consequential Loss Policy covers gross profit and workroom wages, and accountancy charges at Rs. 50,000 or 2% of the amount of the claim (before such charges) whichever is greater. The insurers agreed that

(i) Turnover increases by 15% p.a.

(ii) Workroom wages increase by 10% p.a.

(iii) The period of three months from 1st December to 29th February accounts for one half of the annual turnover. .

(iv) Fixed charges and wages occur evenly throughout the year.

(v) Discounts received equal 1% of turnover.

You are required to· compute the consequential loss claim.

Solution:

Computation of Consequential Loss

(i) Ratio of gross profit:

	Rs.	Rs.	Rs.
Sales			21,60,000
Less: Cost of sales	9,38,400		
Add: Commission, 1 % of turnover	21,600	9,60,000	
Wages		4,80,000	14,40,000
Gross profit,			7,20,000
Ratio to turnover $33^1/3$			

(ii) Loss of turnover: (a) 31st December 1999 to March 31, 2000 :

Annual turnover	21,60,000	
Add: 15% increase	3,24,000	
	24,84,000	
½ up to 29th February, 2000		12,42,000
1/18 * for one month up to March 31, 2000		1,38,000
		13,80,000

(b) April 1, 2000 to May 31, 2000:

Turnover (annual) as above	24,84,000	
Add: 15% Increase	3,72,000	
	28,56,600	
Turnover applicable to the two months for half the shop:		
2/36 of Rs. 28,56,000		1,58,700

(iii)

Loss of Profit: 33 113% of Rs. 15,38,700	5,12,900
Discount @ 1 % on turnover	15,387
Workroom wages: For Dec.-March:	
(One-third of Rs. 4,80,000 plus 10%)	
For April-May:	
½ x (2/ 12) x (5,28,000 + 10%)	48,400
	7,35,387
Add: Accountancy Charges @ 2% of above	14,708
Claim	7,50,095

Illustration 4

A trader intends to take a loss of profit policy with indemnity period of 6 months, however, he could not decide the policy amount. From the following details, suggest the policy amount:

Turnover in last financial year	4,50,000
Standing charges in last financial year	90,000

Net profit earned in last year was 10% of turnover and the same trend expected in subsequent year.

Increase in turnover expected 25%.

To achieve additional sales, trader has to incur additional expenditure of 31,250.

Solution :

(a) Calculation of Gross Profit

$$\text{Gross profit} = \frac{\text{Net Profit} + \text{Standing Charges}}{\text{Turnover}} \times 100 \times 100$$

$$= \frac{45{,}000 + 90{,}000}{4{,}50{,}000} \times 100 \times 100 = 30\%$$

(b) Calculation of Gross Profit

Turnover in the last financial year	4,50,000
Add: 25% increase in turnover	1,12,500
	5,62,500
Gross profit on increased turnover (5,62.500 x 30%)	1,68,750
Add: Additional standing charges	31,250
Policy Amount	2,00,000

Therefore, the trader should go in for a loss of profit policy of 2,00,000.

Illustration 5

(a) A fire broke out in the godown of a business house on 8th July, 2009. Goods costing Rs.2,03,000 in a small sub-godown remain unaffected by fire. The goods retrieved in a damaged condition from the main godown were valued at Rs.1,97,000.

The following particulars were available from the books of accounts:

Stock on the last Balance Sheet date at 31st March, 2009 was Rs.15,72,000. Purchases for the period from 1st April, 2009 to 8th July, 2009 were Rs.37,10,000 and sales during the same period amounted to Rs.52,60,000. The average gross profit margin was 30% on sales.

The business house has a fire insurance policy for Rs.10,00,000 in respect of its entire stock. Assist the Accountant of the business house in computing the amount of claim of loss by fire.

Solution :

(a) Calculation of amount of claim	**Rs.**	**Rs.**
Value of stock as on 8th July, 2009 (Refer W.N.)		16,00,000
Less: Value of stock remaining unaffected by fire	2,03,000	
Agreed value of damaged goods	1,97,000	4,00,000
Loss of stock		12,00,000

Applying average clause:

$$\text{Amount of claim} = \frac{\text{Amount of Policy}}{\text{Stock on the date of fire}} \times \text{Loss of stock}$$

$$= \frac{\text{Rs.}10{,}00{,}000}{\text{Rs.}16{,}00{,}000} \times 12{,}00{,}000$$

$$= \text{Rs. } 7{,}50{,}000$$

Working Note:

Memorandum Trading Account for the period from 1st April, 2009 to 8th July, 2009

	Rs.		Rs.
To Opening Stock	15,72,000	By Sales	52,60,000
To Purchases	37,10,000	By Closing Stock	16,00,000
To Gross Profit (30% of sales)	15,78,000	(Balancing Figure)	
	68,60,000		68,60,000

CHAPTER - 5

Partnership Accounts

Illustration 1

Ramu, Shamu and Raju were partners sharing profits and losses in the ratio of 3 : 2 : 2. Their Balance Sheet as on 01-01-2009 was as follows.

Liabilities		Rs.	Assets	Rs.
Capital accounts			Fixed assets	80,000
Ramu	30,000		Stock	15,000
Shamu	20,000		Debtors	12,000
Raju	20,000	70,000	Cash & bank	1,951
Reserves		14, 000		
Creditors		24,951		
		1,08,951		1,08,951

On 1Sf October, 2009, Ramu died. His heirs agreed that:

(i) Goodwill of the firm be valued at 2 years purchase of average profit of past three years. Profits for the year 2006, 2007 and 2008 were 30,000, 40,000 and 47,600 respectively.

(ii) Fixed assets be revalued at 1,01,000

(iii) Profit to be shared, earned in subsequent period after death of Ramu till settlement of his executors claim.

Ramu's heirs account was settled on 31-12-2009 by bringing in required cash by remaining partners in equal proportion leaving cash balance of 1,234. Each partner had drawn @ 1,000 per month for personal use.

Profit for the current year after charging depreciation of 9,000 (6,000 for first three quarters and 3,000 for last quarter) was 46,600 earned evenly through-out the year.

You are requested to prepare Profit & Loss Appropriation A/c, Cash & Bank A/e Ramu's Executor's A/c and Partner's Capital Accounts for the year ended on 31-12-2009 assuming remaining partner's decided not to retain goodwill in the books. (16 Marks)

Solution :

(i) **Profit & Loss Account**

	(for nine months)	(for three months)		(for nine months)	(for three months)
To Depreciation	6,000	3,000	By Profit (W.N1)	41,700	13.900
To Net profit	35,700	10,900			
	41,700	13,900		41,700	13,900

Profit & loss Appropriation Account

	(for nine months)	(for three months)		(for nine months)	(for three months)
To Partners' capital A/c			By Net Profit	35,700	10,900
Ramu	15,300				
Shamu	10,200	3,043			
Raju	10,200	3,044			
To Ramu's Executor A/c (W.N.2)	4,81				
	35,700	10,900		35,700	10,900

(ii) **Partners' Capital Accounts as on 1 SI October, 2009**

	Ramu	Shamu	Raju		Ramu	Shamu	Raju
To Drawings	9,000	9,000	9,000	By Balance b/d	30,000	20,000	20,000
To Ramu's Executors A/c	87,414	-	-	By Reserves	6,000	4,000	4,000
To Balance c/d	-	55,276	55,276	By Goodwill* (W N 3)			
				By Fixed Assets**			
				By Profit & Loss Appropriation A/c	15,300	10,200	10,200
	96,414	64,276	64,276		96,414	64,276	64,276

(iii) Partners' Capital Accounts as on 31.12.2009

	Shamu	Raju		Shamu	Raju
To Drawings	3,000	3,000	By Balance b/d	55,276	55,276
To Goodwill	42,133	42,133	By Cash	62,255	62,255
To Balanced c/d	75,441	75,442	By Profit & Loss Appropriation A/c	3,043	3,044
	1,20,574	1,20,575		1,20,574	1,20,575

(iv) Ramu's Executor's A/c as on 31.12.2009

To Bank	92,227	By Balance b/d	87,414
		By P&L Appropriation A/c	4,813
	92,227		92,227

(v) Cash & Bank A/c

To Balance b/d	1,951	By Ramu's executors A/c	92,227
To Shamu's capital A/c	62,255	By Partner's Capital A/cs	
To Ramu's capital A/c	62,255	(Drawings):	
		Ramu	9,000
		Shamu	12,000
		Raju	12,000
		By Balance c/d	1,234
	1,26,461		1,26,461

Working Notes:

1. **Profit for the year before depreciation:**

Profit after depreciation	46,600
Add: Depreciation	9,000
Profit before depreciation	55,600

2. As per section 37 of Partnership Act, in case of settlement of deceased partner's account on the date other then the date of death the executor of deceased partner has a choice to take

Either-

(A) Profit earned on Un-settled capital $= \text{Profit} \times \dfrac{\text{Un – settled capital as on 1.10.09}}{\text{Total capital as on 1.10.09}}$

$$= 10{,}900 \times \frac{87{,}414}{(87{,}414 + 55{,}276 + 55{,}276)}$$

$$= 10{,}900 \times \frac{87{,}414}{1{,}97{,}966} = 4{,}813$$

Or-

(B) Interest on capital @ 6% i.e.

87,414 x 6% x 3/12= 1,311

Option A is beneficial, therefore heirs of Ramu will opt for proportionate share of profit i.e. 4,813.

3. Valuation of Goodwill:

			Weight	Product
Profit for	2006	30,000	1	30,000
	2007	40,000	2	80,000
	2008	47,600	3	142,800
		1,17,600	6	2,52,800

$$\text{Weighted Average Profit} = \frac{2,52,800}{6} = 42,133$$

Goodwill = 2 year's purchase of average profit = 42,133 x 2 = 84,266

• As per para 36 of AS 10. 'Accounting for fixed Assets, 'goodwill shouid be recorded in the books only when some consideration in money or money's worth has been paid for it. However in the above solution goodwill has been raised in the books at the time of death of a partner and written off by the remaining partners, as per the information given in the question.

** Appreciation of fixed assets mayalso be recorded through "Revaluation Account"

Illustration 2

E, F and G were partners sharing Profits and Losses in the ratio of 5:3:2 respectively. On 31st March, 2009 Balance Sheet of the firm stood as follows:

Liabilities		Rs.	Assets	Rs.
Capital A/cs			Buildings	55,000
E	50,000		Furniture	25,000
F	40,000		Stock	42,000
G	28,000	1,18,000	Debtors	20,000
Creditors		33,500	Cash at Bank	11,200
Outstanding Expenses		1,700		
		1,53,200		1,53,200

On 31st March, 2009, E decided to retire and F and G decided to continue as equal partners.

Other terms of retirement were as follows:

(i) Building be appreciated by 20%.

(ii) Furniture be depreciated by 10%.

(iii) A provision of 5% be created for bad debts on debtors.

(iv) Goodwill be valued at two years' purchase of profit for the latest accounting year. The firm's Profit for the year ended 31st March, 2009 was Rs.25,000. No goodwill account is to be raised in the books of accounts.

(v) Fresh capital be introduced by F and G to the extent of Rs.10,000 and Rs.35,000 respectively.

(vi) Out of sum payable to retiring partner E, a sum of Rs.45,000 be paid immediately and the balance be transferred to his loan account bearing interest @ 12% per annum. The loan is to be paid off by 31st March, 2011.

One month after E's retirement, F and G agreed to admit E's son H as a partner with one-forth share in Profits/Losses. E agreed that the balance in his loan account be converted into H's Capital. E also agreed to forgo one month's interest on his loan.

It was also agreed that H will bring in, his share of goodwill through book adjustment, valued at the price on the date of E's retirement. No goodwill account is to be raised in the books.

You are requested to pass necessary Journal Entries to give effect to the above transactions and prepare Partners' Capital Accounts. (16 Marks)

Solution :

		Dr. Rs.	**Cr. Rs.**
1. Building Account	Dr.	11,000	
To Revaluation Account			11,000
(Being building appreciated)			
2. Revaluation Account	Dr.	3,500	
To Furniture Account			2,500
To Provision for Doubtful Debts Account			1,000
(Being furniture depreciated by 10% and Provision for doubtful debts created @ 5% on Debtors)			

3. Revaluation Account	Dr.	7,500	
To E's Capital Account			3,750
To F's Capital Account			2,250
To G's Capital Account			1,500
(Being profit on revaluation transferred to capital a/cs. of partners)			
4. F's Capital Account	Dr.	10,000	
G's Capital Account	Dr.	15,000	
To E's Capital Account			25,000
(Being adjustment for E's share of goodwill)			
5. Bank Account	Dr.	45,000	
To F's Capital Account			10,000
To G's Capital Account			35,000
(Being fresh capital introduced by F and G)			
6. E's Capital Account	Dr.	78,750	
To Bank Account			45,000
To E's Loan Account			33,750
(Being settlement of E's capital on his retirement)			
7. E's Loan Account	Dr.	33,750	
To H's Capital Account			33,750
(Transfer of E's Loan Account to H's Capital Account)			
8. H's Capital Account	Dr.	12,500	
To F's Capital Account			6,250
To G's Capital Account			6,250
(Being adjustment entry passed for H's share of goodwill)			

Partners' Capital Accounts

	E Rs.	F Rs.	G Rs.	H Rs.		E Rs.	F Rs.	G Rs.	H Rs.
To E (Goodwill)		10,000	15,000		By Balance b/d	50,000	40,000	28,000	
To Bank	45,000				By Revaluation A/c	3,750	2,250	1,500	
To E's Loan A/c	33,750				By F (Goodwill)	10,000			
To Balance c/d		42,250	49,500		By G (Goodwill)	15,000			
					By Bank (fresh capital)		10,000	35,000	
	78,750	52,250	64,500			78,750	52,250	64,500	
To F (Goodwill)				6,250	By Balance b/d		42,250	49,500	
To G (Goodwill)				6,250	By E's Loan A/c				33,750
To Balance c/d		48,500	55,750	21,250	By H (goodwill)		6,250	6,250	
		48,500	55,750	33,750			48,500	55,750	33,750

Working Notes:

1. Calculation of gaining ratio

Partners	New ratio	Old ratio	Gain	Sacrifice
E		$\frac{5}{10}$		$\frac{5}{10}$
F	$\frac{1}{2}$	$\frac{3}{10}$	$\frac{1}{2} - \frac{3}{10} = \frac{2}{10}$	
G	$\frac{1}{2}$	$\frac{2}{10}$	$\frac{1}{2} - \frac{2}{10} = \frac{3}{10}$	

Hence, ratio of gain between F and G = 2:3

2. Value of total goodwill of the firm = Rs.25,000 × 2 = Rs.50,000

   E's share = Rs.50,000 x 5/10 = Rs.25,000
   F will bear = Rs.25,000 x 2/5 = Rs 10 000
   G will bear = Rs.25,000 x 3/5 = Rs 15 000

3. H's share of goodwill = Rs.50,000 x ¼ = Rs.12,500

   F and G share equal profits. Therefore, their sacrificing ratio will also be equal Hence, each of them will be credited with Rs.6,250

CHAPTER - 6

Company Final Accounts

Illustration 1

H. P. Ltd. employs a managing director who is entitled to a salary of Rs. 5,000 per month and, in addition, to a commission of 1% of the net profits before charging such salary and commission. The following Profit and Loss Account is presented by H. P. Ltd. for the year ended 31st March, 2008.

Particulars	Rs.	Particulars	Rs.
To Staff salaries & bonus	3,00,000	By Gross Profit b/d	10,00,000
To General expenses	1,50,000	By Profit on sale of plant	
To Repairs to Buildings	30,000	(Cost price Rs.2,50,000;	1,00,000
To Directors' fees	10,000	W.D.V. Rs.1,80,000)	
To R&D expenses (cost of an apparatus)	25,000	By Subsidy from Central Government	4,00,000
To Ex-gratia payment to an employee	5,000		
To Depreciation	1,50,000		
To Bad debt	30,000		
To Compensation for breach of contract	20,000		
To Donations to Ramkrishna Mission	30,000		
To Managing director's salary	60,000		
To Interest on debentures	20,000		
To Debenture trustee remuneration	5,000		
To Income tax	3,32,500		
To Net Profit c/d	3,32,500		
	15,00,000		15,00,000

You are required to calculate the commission payable to managing director. You may assume the depreciation appearing in the Profit and Loss Account has been calculated in accordance with Schedule XIV to the Companies Act, 1956.

Solution :

Calculation of Profits for the Purpose of Managerial Remuneration

	Particulars	Rs.	Rs.
Net Profit			3,52,500
Add:	Cost of apparatus for Research and Development	25,000	
	Ex-gratia payment to an employee	5,000	
	Managing Director's salary	60,000	
	Income tax	3,32,500	4,22,500
			7,55,000
Less:	Capital profit on sale of Plant (Note 1)		30,000
Profit under Section 349			7,25,000
Commission payable to the Managing Director (@ 1% on Rs. 7,25,000)			7,250

Cost of research equipment, ex-gratia etc., are not treated as allowable expenses for computing managerial remuneration.

As per the provision of Schedule XIII to the Companies Act, 1956, maximum remuneration (salary + commission) payable to a managing director is limited to 5% of the net profits of the company. Prior approval of the Central Government is required for any excess amount.

Here, Salary and commission payable (Rs. 60,000 + Rs. 7,250)	= Rs. 67,250
5% of the Net Profit (5/100 × Rs. 7,25,000)	= Rs. 36,250
Excess	31,000

Prior approval of the Central Government is required in respect of the excess amount of Rs.31,000. Otherwise the managing director is to refund (Rs. 60,000 – Rs. 36,250) = Rs. 23,750.

Working Note:

(1) Calculation of Revenue profit on sale of plant	**Rs.**
Sales price (W.D.V. + Profit on sale, i.e., Rs. 1,80,000 + Rs. 1,00,000)	2,80,000
Less: Cost price (original)	2,50,000
Capital Profit	30,000
Revenue profit (Total profit – Capital profit)	70,000

Illustration 2

The trial balance of Complex Ltd. as at 31st March, 1998 shows the following items :

	Dr. Rs.	Cr. Rs.
Advance payment of income-tax	2,20,000	-
Provision for income-tax for the year ended 31.3.97	-	1,20,000

The following further informations are given :

(i) *Advance payment of income-tax includes Rs. 1,40,000 for 1996-97.*

(ii) *Actual tax liability for 1996-97 amounts to Rs. 1,52,000 and no effect for the same has so far been given in accounts.*

(iii) *Provision for income-tax has to be made for 1997-98 for Rs. 1,60,000.*

You are required to prepare (a) provision for income-tax account, (b) advance payment of income-tax account, (c) liabilities for taxation account and also show, how the relevant items will appear in the profit and loss account and balance sheet of the Company.

Solution :

Complex Ltd.

(a) **Provision for Income Tax Account**

Dr. Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.98	To Advance Payment of Income-tax A/c	1,40,000	1.4.97	By Balance b/d	1,20,000
	To Liability for Taxation A/c	12,000	31.3.98	By Profit and Loss A/c	32,000
		1,52,000			1,52,000
31.3.98	To Balance c/d	1,60,000	31.3.98	By Profit and Loss A/c	1,60,000

(b) **Advance Payment of Income Tax Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.98	To Balance b/d	2,20,000	31.3.98	By Provision for Income-tax (1996-97) A/c	1,40,000
				By Balance c/d	80,000
		2,20,000			2,20,000

(c) **Liability for Taxation Account**

Date	Particulars	Rs.	Date	Particulars	Rs.
31.3.98	To Balance c/d	12,000	31.3.98	By Provision for Income-tax A/c	12,000
		12,000			12,000

Profit and Loss Account
for the year ended 31st March, 1998 (Extracts)

	Rs.	Rs.
Profit before Taxation		....
Less :Taxation for the year	1,60,000	
Taxation adjustment of previous year	32,000	1,92,000
Net Profit		....

Balance Sheet of Complex Ltd.
As at 31st March, 1998 (Extracts)

Liabilities	**Rs.**	**Assets**	**Rs.**
Current Liabilities and Provisions		Current Assets, Loans and Advances	
A. Current Liabilities		B. Loans and Advances	
Liability for Taxation (1996-97)	12,000	Advance payment of Income-tax	80,000
B. Provisions			
Provision for Income-tax	1,60,000		

Illustration 3

The following are the balances from the Ledger of Mount View Hotel Ltd., on 31st March 2006:

	Rs.
Share Capital - Credit Balance on 1st January, 2006	56,685
Preliminary Expenses	7,500
Freehold Premises	46,800
Furniture and Fittings	8,934
Glass and China	1,101
Linen	840
Cutlery and Plate	390
Rates, Taxes and Insurance	1,713
Salaries	2,400
Wages	4,305
Stocks on 31st March, 2005 :	
Wines, Rs. 1,239 ; Spirits, Rs. 378 ; Beer, Rs. 165 ;	1,782
Minerals, Rs. 147 ; Cigars and Cigarettes, Rs. 114	261
Sundry Provisions and Stores, Rs. 183; Coal, Rs. 150	333
Purchases :	
Meat, Rs. 3,627 ; Fish and Poultry Rs. 3,960	7,587
Sundry Provisions and Stores, Rs. 5,220	5,220
Wines Rs. 1,881 ; Spirits Rs. 2,190 ; Beer Rs. 1,152	5,223
Minerals, Rs. 1,050 : Cigars and Cigarettes, Rs. 240	1,290
Laundry	951
Coal and Gas	2,160
Electric Light	1,128
General Expenses	1,710
Sales -	
Wines, Rs. 3,870 ; Spirits, Rs. 4,335 ; Beer, Rs. 1,863	10,068
Minerals, Rs. 2,160 ; Cigars and Cigarettes, Rs. 390	2,550
Meals	23,829
Rooms	9,375
Fires in Bedrooms	582
Washing Charges	219
Repairs, Renewals, and Depreciation -	
Premises, Rs. 348 ; Furniture and Fittings, Rs. 660	1,008
Glass and China, Rs. 609 ; Linen, Rs. 390	999
Cutlery and Plate	207
Cash Book - Debit Balances:	Rs.
In Bank	2,148
On hand	219
Visitors Accounts unpaid	489
Sundry Creditors	3,390

Stocks on 31st March, 2006 were valued as follows -
Wines, Rs. 1,197; Spirits, Rs. 333 ; Beer, Rs. 174 ;
Minerals, Rs. 357 ; Cigars and Cigarettes, Rs. 69 ;
Sundry Provisions and Stores, Rs. 141 ; Coal, Rs. 99

The Manager is entitled to a commission of 5% of the net profits after charging his commission. The authorised share capital is 10,000 shares of Rs. 10 each of which 5,700 shares were issued, the whole of the amount being called up. The final call on 210 shares @ Rs. 1.50 per share was unpaid ; the directors forfeited these shares at their meeting held on 15th March, 2006.

The tax liability is estimated at Rs. 4,300 and the directors propose to declare a dividend at the rate of 6 per cent. Prepare the Final Accounts for presentation to the shareholders.

Solution :

Profit and Loss Account of Mount-View Hotel Ltd.,
for the year ended 31st March, 2006

		Rs.			Rs.
To	Opening Stocks -		By	Sales -	
	Wines, Spirit and Beer	1,782		Wines, Spirits, Beer	10,068
	Minerals, Cigars and Cigarettes	261		Minerals, Cigars and Cigarettes	2,550
	Sundry Provision & Stores and Coal	333	By	Meals	23,829
To	Purchases:		By	Rooms	9,375
	Meat, Fish and Poultry	7,587	By	Fires in Bed Rooms	582
	Sundry Provisions & Stores	5,220	By	Washing Charges	219
	Wines, Spirits, Beer	5,223	By	Closing Stocks :	
	Minerals, Cigars & Cigarettes	1,290		Wines, Spirit & Beer	1,704
To	Wages	4,305		Minerals, Cigars & Cigarettes	426
To	Coal and Gas	2,160		Sundry Provisions & Stores and Coal	240
To	Rates, Taxes and Insurances	1,713			
To	Salaries	2,400			
To	Laundry	951			
To	Electricity Light	1,128			
To	General Expenses	1,710			
To	Repairs, Renewals and Depreciation :				
	Premises	348			
	Furniture & Fittings	660			
	Glass and China	609			
	Linene	390			
	Cutlery & Plate	207			

To Commission to Manager Outstanding (on Rs. 10,206 @ 5%)	510		
To Provision for Taxation	4,300		
To Net Profit Transferred to Profit & Loss Appropriation Account	5,906		
	48,993		48,993

To Proposed Dividend	3,294	By Net Profit for the current year	5,906
To Corporate Dividend Tax (3,294 × .10)	329.4		
To Balance c/d	2282.6		
	5,906		5,906

Balance Sheet of Mount-View Hotel Ltd., as on 31st March, 2006

Liabilities	Rs.	Assets	Rs.	Rs.
Share Capital :		Fixed Assets :		
Authorised		Freehold Premises	47,148	
10,000 Shares of Rs. 10 each	1,00,000	Less : Depreciation	348	46,800
Issued & Subscribed :				
5,490 Equity Shares of Rs. 10		Furniture & Fittings	9,594	
each fully paid up	54,900	Less : Depreciation	600	8,934
Forfeited Shares	1,785			
Reserves and Surplus :		Current Assets, Loans and Advances :		
Profit & Loss Account	2282.6	(A) Current Assets :		
Current Liabilities and Provisions		Linen	1,230	
(A) Current Liabilities :		Less : Depreciation	390	840
Sundry Creditors	3,390			
Manager's Commission		Cutlery & Plate	597	
Outstanding	510	Less : Depreciation	207	390
(B) Provisions :				
Provision for Taxation	4,300	Glass & China	1,710	
Proposed Dividend	3,294	Less : Depreciation	609	1,101
Corporate Dividend Tax	329.4	Stock of :		
		Wines, Spirits & Beer		1,704
		Minerals, Cigars & Cigarettes		426

		Sundry Provisions & Stores and Coal	240
		Debtors	489
		Cash in hand	219
		Cash at Bank	2,148
		(B) Loans & Advances :	Nil
		Miscellaneous Expenditure :	
		Preliminary Expenses	7,500
	70,791		70,791

Illustration 4

The following balances have been extracted from the books of DOW Books Limited as on 31st March, 2006.

	Dr. Rs.		Cr. Rs.
Cash in hand	3,800	Share Capital	90,000
Cash at Bank	12,600	9% Debentures	30,000
Bills Receivable	4,000	Sundry Creditors	29,000
Investment	1,000	Profit and Loss A/c	2,000
Security Deposit	400	Secured Loan from bank against stock	50,000
Advances	8,500		
Debtors	75,000	Gross Profit	1,75,000
Land and Buildings	1,05,000	Share Suspense	3,000
Furniture	4,500	Liabilities for expenses	12,000
Motor Car	25,000	Sale of Furniture	300
Closing Stock	95,000	Bills Payable	3,100
Establishment expenses	35,200	Miscellaneous Receipts	425
Repairs and renewals	2,600		
Motor Car Expenses	4,200		
Travelling and Conveyance	1,600		
Printing and Stationery	900		
Telephone	1,200		
Debenture Interest	2,025		
Commission on sales	3,200		
Advertisement	3,500		
Managing Director's remuneration	3,600		
Directors fees	2,000		
	3,94,825		3,94,825

The following further particulars are available :

(1) Amount of share capital has been arrived at as follows -

9,200 equity shares of Rs. 10 each, fully called up	92,000
Less : Calls-in-arrear @ Rs. 2 on 1,000 shares	2,000
	90,000

(2) The Profit and Loss Account balance has been arrived at after charging Rs. 5,000 on account of short provision of taxation for the earlier year.

(3) A Bank advice, for debit of Rs. 710 on account of interest on loan upto 31st March 2006, was received on 5th April, 2006 the loan having been taken on 1st March, 2006.

(4) The Bank statement shows a wrong credit of Rs. 3,000 on 16th March 2006, the same being detected and adjusted by the Bank on 30th April 2006.

(5) The 1,000 shares, on which calls were forfeited by the Board, and Share Suspense represents the amount received on their reissue, as fully paid, by Board's resolution.

(6) Sale of furniture represents disposals, during the year, of a few old items of furniture having a written-down value of Rs. 400 on 30th September 2006, against their original cost of Rs. 800.

(7) Cost of land Rs. 30,000 is included in the amount of land and buildings.

(8) Sundry debtors, which are all unsecured and considered goods, include Rs. 10,000 due for more than six months.

(9) Advertisement charges include materials of Rs. 1,500.

(10) Advances include Rs. 3,000 paid for a new telephone installed during the year under the OYT Scheme, of which an amount of Rs. 150 has been set off against the current year's bills.

(11) Amounts of Rs. 2,000 and Rs. 1,200 debited to purchases and wages respectively, were for making new furniture during the year.

(12) Investment represents purchase of 200 equity shares of Rs. 10 each, Rs. 5 per share called and paid up.

(13) Charge depreciation on the closing written down amount of -

Buildings	@ 2.5%
Furniture	@ 10%
Motor Car	@ 20%

(14) Original costs of fixed assets were -

	Rs.
Buildings	1,00,000
Furniture	9,000
Motor Car	35,000

(15) The Managing Director is entitled to 5% of the annual net profits as his remuneration, subject to a minimum of Rs. 300 per month. The net profits, for this purpose, are to be taken without charging income-tax and his remuneration itself.

(16) Bills discounted not matured Rs. 1,500.

(17) Provision for income-tax is to be made, for the year, of Rs. 65,000.

(18) The following appropriations have been proposed by the Board of Directors out of the profit for the year -

(a) Transfer of Rs. 20,000 to General Reserve.
(b) Dividend of 12% on the paid-up capital.

(19) Debentures were issued two years back, and are not secured.

You are required to prepare the Profit and Loss Account for the year ended 31st March, 2006 and the Balance as on that date. Ignore previous year's figures.

Solution :

DOW Books Ltd.

Profit and Loss Account for the Year ended 31st March, 2006

	Rs.	Rs.		Rs.
To Establishment Expenses		35,200	By Gross Profit	1,75,000
To Repairs, Renewals		2,600	By Cost of furniture, (expenses to be capitalised)	3,200
To Motor Car Expenses		4,200	By Miscellaneous Receipts	425
To Travelling & Conveyance		1,600		
To Loss on sale of furniture		100		
To Printing & Stationery		900		
To Telephone		1,350		
To Debenture Interest		2,700		
To Bank Interest		710		
To Commission on Sales		3,200		
To Advertisement		2,000		
To Directors. Fees		2,000		
To Depreciation :				
Furniture	730			
Buildings	1,875			
Motor Car	5,000	7,605		
To Managing Director's Remuneration		5,723		
To Provision for Income Tax		65,000		
To Net Profit c/d		43,737		
		1,78,625		1,78,625

	Rs.		Rs.
To Transfer to General Reserve (Proposed)	20,000	By Net Profit for the year b/d	43,737
*To Short Provision for Income tax in the previous year	5,000	By Balance from previous year	7,000
To Proposed Dividend	11,040		
To Corporate Dividend Tax (11,040 × .10)	1104		
To Balance c/d	13,593		
	45,737		45,737

Note on Remuneration to Managing Director:

	Rs.
Profit as disclosed	43,737
Add :Provision for Taxation	65,000
Managing Director's Remuneration	5,723
Profit before calculating the Remuneration	1,14,460
Remuneration @ 5%	5,723

Balance Sheet of DOW Books Ltd., as at 31st March, 2006

Liabilities and Capital	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital			**Fixed Assets** :		
Authorised		--	Land at cost		30,000
Issued			Building : Cost	1,00,000	
Subscribed and Paid up :			Depreciation		
9,200 Equity Shares of Rs. 10			provided	26,875	73,125
each fully paid		92,000			
Reserve and Surplus			Furniture : Cost	9,000	
Capital Reserve		1,000	Less : Disposed of		
Profit & Loss Account Balance		13,593	(cost)	800	
General Reserve (Proposed				8,200	
Transfer)		20,000	Addition during the		
Secured Loans			year	3,200	
Loan from bank (secured				11,400	
against stock) :	50,000				
Interest due	710	50,710	Depreciation provided	4,830	6,570
			Motor Car		
Unsecured Loans			Cost	35,000	
9% Debentures		30,000	Depreciation provided	15,000	20,000
Current Liabilities and Provisions :					
A. Current Liabilities					
Bills Payable		3,100	**Investments** :		
Sundry Creditors for goods			Partly paid shares		1,000
and expenses		43,123	**Current Assets, Loans and**		
Interest accrued on Debentures		675	**Advances**		
B. Provisions :			Current Assets :		
Provision for Taxation		65,000	Stock in Trade (at cost)	95,000	
Proposed Dividend		11,040	(Book Debts all un-		
Corporate Dividend Tax		11,04	secured but considered good) More than		
			6 months 10,000		
			Others 65,000	75,000	
			Cash in hand	3,800	
			Cash at Bank (Bank assumed		
			to be Scheduled)	12,600	1,86,400
			B. Advances :		
			Bills Receivable	4,000	
			Deposits		8,350
			Advertisement		
			Material on hand	1,500	
			Security Deposit	400	14,250
		3,31,345			3,31,345

Note : There is contingent liability for calls that may be made on partly paid shares, Rs. 1,000 and for Bills under discount, Rs. 1,500.

Working Notes :

(i) Rs. 710, interest due to Bank, may also be adjusted against the bank balance, specially when the Bank is entitled to debit to company's accounts under the Loan Agreement.

(ii) The wrong credit given by the Bank, subsequently adjusted, is only an item for the Bank Reconciliation Statement.

(iii) The Share Suspense Account has a balance of Rs. 1,000 after adjustment of the amount in arrear. It has to be credited to Capital Reserve.

(iv) Rs. 150 out of OYT deposit has to be treated as telephone charges.

(v) Previous year's figures have not been given since these are not available. Stastical information required to be disclosed under Schedule VI has also not been given for the same reason.

Illustration 5

You are required to prepare a Profit and Loss Account and Balance Sheet from the following Trial Balance extracted from the books of the International Hotels Ltd., on 31st March, 2006-

	Dr. Rs.	Cr. Rs.
Authorised Capital-divided into 5,000 6% Preference Shares of Rs. 100 each and 10,000 equity Shares of Rs. 100 each		15,00,000
Subscribed Capital -		
5,000 6% Preference Shares of Rs. 100 each		5,00,000
Equity Capital		8,05,000
Purchases - Wines, Cigarettes, Cigars, etc.	45,800	
- Foodstuffs	36,200	
Wages and Salaries	28,300	
Rent, Rates and Taxes	8,900	
Laundry	750	
Sales - Wines, Cigarettes, Cigars, etc.		68,400
- Food		57,600
Coal and Firewood	3,290	
Carriage and Cooliage	810	
Sundry Expenses	5,840	
Advertising		8,360
Repairs	4,250	

Rent of Rooms		48,000
Billiard		5,700
Miscellaneous Receipts		2,800
Discount received		3,300
Transfer fees		700
Freehold Land and Building	8,50,000	
Furniture and Fittings	86,300	
Stock on hand, 1st April, 2005		
Wines, Cigarettes. Cigars,etc.	12,800	
Foodstuffs	5,260	
Cash in hand	2,200	
Cash with Bankers	76,380	
Preliminary and formation expenses	8,000	
2,000 Debentures of Rs. 100 each (6%)		2,00,000
Profit and Loss Account		41,500
Sundry Creditors		42,000
Sundry Debtors	19,260	
Investments	2,72,300	
Goodwill at cost	5,00,000	
General Reserve	_	2,00,000
	19,75,000	19,75,000

Wages and Salaries Outstanding	1,280
Stock on 31st March, 2006	
Wines Cigarettes and Cigars, etc.	22,500
Foodstuffs	16,400

Depreciation :
Furniture and Fittings @ 5% p.a.; Land and Building @ 2% p.a.

The Equity capital on 1st April, 2005 stood at Rs. 7,20,000, that is 6,000 shares fully paid and 2,000 shares Rs. 60 paid. The directors made a call of Rs. 40 per share on 1st October 2005. A shareholder could not pay the call on 100 shares and his shares were then forfeited and reissued @ Rs. 90 per share as fully paid. The Directors propose a dividend of 8% on equity shares, transferring any amount that may be required from General Reserve. Ignore Taxation.

Solution :

Profit and Loss Account of International Hotels Ltd.
for the year ended 31st March, 2006

	Rs.	Rs.		Rs.
To Stock on 1st April, 2005			By Sales,	
Wines, Cigarettes, Cigars etc.		12,800	Wines, Cigarettes, Cigars etc.	68,400
Foodstuffs		5,260	By Food	57,600
To Purchases -			By Rent of Rooms	48,000
Wines, Cigarettes etc.		45,800	By Billiards	5,700
Foodstuffs		36,200	By Miscellaneous Receipts	2,800
To Wages and Salaries	28,300		By Discount Received	3,300
Add: Wages and			By Transfer fees 700	
Salaries Outstanding	1,280	29,580	By Stock on 31st March, 2006 :	
To Rent, Rates and Taxes		8,900	Wines Cigarettes Cigars, etc.	22,500
To Laundry		750	By Foodstuffs	16,400
To Coal and Firewood		3,290		
To Carriage and Cooliage		810		
To Sundry Expenses		5,840		
To Advertising		8,360		
To Repairs		4,250		
To Interest on Debentures		12,000		
To Depreciation on Furniture				
and Fittings @ 5%		4,315		
Land and Buildings @ 2%		17,000		
To Net Profit c/d		30,245		
		2,25,400		2,25,400
To Preference Dividend Payable		30,000	By Net Profit b/d	41,500
To Proposed Equity Dividend		64,000	By Net Profit for the year	30,245
			By General Reserve	22,255
		94,000		94,000

Balance Sheet of International Hotels Ltd. as on 31st March, 2006

Liabilities		Rs.	**Assets**		Rs.
Share Capital :			Fixed Assets		
Authorised :			Goodwill (Cost)	5,00,000	
5,000 6% Preference shares	5,00,000		Freehold land &		
of Rs. 100 each			Buildings*	8,50,000	
10,000 Equity shares of	10,00,000		Less : Depreciation	17,000	8,33,000
Rs. 100 each		15,00,000			

* The amount in respect of Land has to be shown separately.

Liabilities		Rs.	Assets		Rs.
Issued and Subscribed :			Furniture and Fittings	86,300	
5,000 6% Preference Shares			Less : Depreciation	4,315	81,985
of Rs. 100 each		5,00,000	Investments :		2,72,300
8,000 Equity Shares of Rs. 100 each		8,00,000	Current Assets, Loans and		
Reserves and Surplus :			Advances :		
Capital Reserve**	5,000		(A) Current Assets :		
General Reserve	2,00,000		Stock :		
Less : Amount used to			Wines, Cigarettes &		
pay dividend	22,255	1,77,745	Cigars, etc.		22,500
			Foodstuffs		16,400
Secured loans :			Sundry Debtors		19,260
6% Debentures		2,00,000	Cash in hand		2,200
Outstanding Interest on above		12,000	Cash with Bankers		76,380
Current Liabilities and Provisions :			(B) Loans and Advances :		Nil
(A) Current Liabilities :			Miscellaneous Expenditure :		
Sundry Creditors		42,000	Preliminary Expenses		8,000
Wages and Salaries Outstanding		1,280			
(B) Provisions :					
Proposed Dividend (pref.					
and equity)		94,000			
		18,32,025			18,32,025

* Profit on forfeited shares reissued

Illustration 6

From the following particulars furnished by Pioneer Ltd., prepare the Balance Sheet as at 31st March, 2006 as required by Part I, Schedule VI of the Companies Act. Give notes at the foot of the Balance Sheet as may be found necessary -

		Debit Rs.	Credit Rs.
Equity Capital (Face value of Rs. 100)			10,00,000
Calls in Arrears		1,000	
Land		2,00,000	
Building		3,50,000	
Plant and Machinery		5,25,000	
Furniture		50,000	
General Reserve			2,10,000
Loan from State Financial Corporation			1,50,000
Stock :			
Finished Goods	2,00,000		
Raw Materials	50,000	2,50,000	

	Debit Rs.	Credit Rs.
Provision for Taxation		68,000
Sundry Debtors	2,00,000	
Advances	42,700	
Proposed Dividend		60,000
Profit and Loss Account		1,00,000
Cash Balance	30,000	
Cash at Bank	2,47,000	
Preliminary Expenses	13,300	
Loans (Unsecured)		1,21,000
Sundry Creditors (For Goods and Expenses)		2,00,000
	19,09,000	19,09,000

The following additional information is also provided :

(1) Miscellaneous expenses included Rs. 5,000 audit fees and Rs. 700 for out of pocket expenses paid to the auditors.

(2) 2,000 equity shares were issued for consideration other than cash.

(3) Debtors of Rs. 52,000 are due for more than six months.

(4) The cost of assets:

Building	Rs.4,00,000
Plant and Machinery	Rs.7,00,000
Furniture	Rs.62,500

(5) The balance of Rs. 1,50,000 in the loan account with State Finance Corporation is inclusive of Rs. 7,500 for interest accrued but not due. The loan is secured by hypothecation of the Plant and Machinery.

(6) Balance at Bank includes Rs. 2,000 with Perfect Bank Ltd., which is not a Scheduled Bank.

(7) Bills receivable for Rs. 2,75,000 maturing on 30th June, 2006 have been discounted.

(8) The company had contract for the erection of machinery at Rs. 1,50,000 which is still incomplete.

Solution :

Pioneer Ltd.
Balance Sheet as on 31st March, 2006

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
Share Capital			Fixed Assets		
Authorised			Land	2,00,000	
.... Equity shares of			Building: Cost	4,00,000	
Rs. ... each			Less: Depreciation	50,000	3,50,000
Issued & subscribed:			Plant & Machinery		
10,000 Equity			Cost	7,00,000	
Shares of Rs. 100			Less: Depreciation	1,75,000	5,25,000
each fully called up	10,00,000				
(Of the above 2,000			Furniture: Cost	62,500	
Equity Shares of			Less: Depreciation	12,500	50,000
Rs. 100 each have been			Investment		
issued for consideration			Current Assets,		
other than cash)			Loans & Advances		
			A. Current Assets		
Less: calls in arrears	1,000	9,99,000	Stock in trade		
Reserves & Surplus			Finished goods	2,00,000	
General Reserve		2,10,000	Raw Material	50,000	2,50,000
Profit & Loss Account		1,00,000	(a) Debts outstanding		
Secured Loans			for a period		
Loan from State			exceeding six		
Financial Corporation		1,42,500	months	52,000	
(Secured by hypothecation of			(b) Other Debts		
Plant and Machinery)			Less Provision	1,48,000	2,00,000
Unsecured Loan			Cash in hand	30,000	
Unsecured Loans		1,21,000	Cash at Bank		
			(a) with Scheduled		
Current Liabilities &			Banks	2,45,000	
Provisions			(b) with others		
			Perfect Bank Ltd.	2,000	2,47,000
A. Current Liabilities					
Sundry Creditors		2,00,000	B. Loans & Advances		
Interest accrued but			Advances		42,700
not due on loans (SFC)		7,500	Misc. Expenses		
B. Provisions			(to the extent		
Provision for taxation		68,000	not written off)		
Proposed Dividend		60,000	Preliminary Expenses		13,300
		19,08,000			19,08,000

Notes:

(a) Estimated amount of contract remaining to be executed on capital account and not provided for Rs. 1,50,000.*

(b) Bills receivable discounted maturing on 31st June, 2006 amount to Rs. 2,75,000.

* It has been assumed that the company had given this contract for purchase of machinery.

CHAPTER - 7

Corporate Restructuring And Accounting for Amalgamations, Takeovers

Illustration 1

Balance Sheet of PX Ltd. as on 31.12.2006

Liabilities	Rs. in '000s	Assets	Rs. in '000s
Share Capital:		**Sundry Fixed Assets**	**50,00**
Equity shares of Rs. 10 each	50,50	Stock	20,00
8% Preference shares	9,50	Debtors	10,00
12% Debentures	15,00	Cash & Bank	5,00
Sundry Creditors & Other Liabilities	10,00		
	85,00		85,00

ZX Ltd. agreed to take over PX Ltd. by issuing requisite number of preference shares of Rs. 10 each at 5% discount to the preference shareholders of PX Ltd. and requisite number of equity shares of Rs. 10 each at par to the equity shareholders of PX Ltd. Purchase consideration is settled as per book value of the assets and the debentures will be taken over by ZX Ltd. on the agreement that such will be paid off at 10% premium after one year. Debenture-holders of PX Ltd. will accept 12% debentures of ZX Ltd. Compute purchase consideration.

Solution:

Compution of Purchase Consideration:

	Rs. in '000s	Rs. in '000s
Book Value of assets taken over		85,00
Less: Liabilities taken-over:		
Debentures	15,00	
Add: Premium on redemption of debentures	1,50	
	16,50	
Add: Sundry Creditors & Other Liabilities	10,00	26,50
Purchase Consideration		58,50

(To be discharged by 8% preference shares of ZX Ltd. and equity shares.)

Computation of number of shares to be issued:

1) Preference shares to be issued : Rs. 950000/ Rs. 9.5 = 100000 shares
   Balance of purchase consideration : Rs. 58,50000 - Rs. 9,50000 = 49,00000
2) Equity shares to be issued Rs. 49,00 000/ Rs. 10 = 490000

Illustration 2

Laxman Ltd. is absorbed by Ram Ltd. The consideration is as follows:

(i) taking over of liabilities.

(ii) the payment of cost of amalgamation not exceeding Rs. 8,000;

(iii) a payment of Rs. 15 per share in cash and allotment of one 14% preference share of Rs. 100 each and 5 equity shares of Rs. 100 each fully paid for every 4 shares in Laxman Ltd.

The market value of the equity shares of Ram Ltd. is Rs. 140 but it is desired that entries should be made on the basis of par value only. The actual cost of amalgamation came to Rs. 10,000.

The following is the balance sheet of Laxman Ltd. on the date of amalgamation:

Liabilities	Rs.	Assets		Rs.
Share Capital:		Land and Buildings		16,00,000
20,000 shares of Rs. 100		Plant and Machinery		14,00,000
each, fully paid up	20,00,000	Patent Rights		3,50,000
General Reserve	13,00,000	Investment against Sinking Fund		1,00,000
Sinking Fund	1,00,000	Staff Provident Fund Investment		1,50,000
12% Loan	4,00,000	Stock		2,00,000
Sundry Creditors	1,40,000	Debtors	4,00,000	
Employees Profit Sharing Reserve	1,00,000	Less: Provision for		
Staff Provident Fund	1,50,000	bad debts	40,000	3,60,000
		Cash at Bank		30,000
	41,90,000			41,90,000

Stock of Laxman Ltd. include goods valued at Rs. 56,000 purchased from Ram Ltd. Which was invoiced at cost plus 16 2/3 %. The creditors include Rs. 80,000 due by Laxman Ltd. to Ram Ltd.

Journalise the closing entries of Laxman Ltd. and the opening entries of Ram Ltd. Does it make any difference if the shares in Ram Ltd. are valued at Rs. 140 but entries are made at par?

Solution:

1. Calculation of consideration:

		Amount Rs.
(i)	Cash = 20,000 shares x Rs. 15	3,00,000
(ii)	14%Preference shares = (20,000 shares / 4) x Rs.100	5,00,000
(iii)	Equity shares = (20,000 shares / 4) x 5 x Rs.100	25,00,000
		33,00,000

In the books of Laxman Ltd.

Realisation Account

Dr.	Rs.		Cr. Rs.
To Land and Buildings	16,00,000	By Provisions for Bad Debts	40,000
To Plant and Machinery	14,00,000	By Sinking Fund	1,00,000
To Patents Rights	3,50,000	By 12% Loan	4,00,000
To Investment against Sinking Fund	1,00,000	By Sundry Creditors	1,40,000
To Staff Provident Fund Investment	1,50,000	By Employees' Profit sharing Reserve	1,00,000
To Stock	2,00,000	By Staff Provident Fund Investment	1,50,000
To Debtors	4,00,000	By Ram Ltd. (consideration)	33,00,000
To Cash at Bank	30,000	By Ram Ltd. (expenses)	8,000
To Bank (expenses)	10,000	By Equity Shareholders A/c (loss)	2,000
	42,40,000		42,40,000

Ram Ltd.

Dr.	Rs.		Cr. Rs.
To Realisation A/c (consideration)	33,00,000	By Bank	3,00,000
To Realisation A/c (for expenses)	8,000	By 14% Preference Shares in Ram Ltd.	5,00,000
		By Equity Shares in Ram Ltd.	25,00,000
		By Bank (for expenses)	8,000
	33,08,000		33,08,000

Cash Book (Bank Columns)

Dr.	Rs.		Cr. Rs.
To Balance b/d	30,000	By Realisation A/c (transfer)	30,000
To Ram Ltd.	3,00,000	By Realisation A/c (expenses)	10,000
To Ram Ltd. (for expenses)	8,000	By Equity Shareholders A/c (distribution)	2,98,000
	3,38,000		3,38,000

Equity Shareholders Account

Dr.	Rs.		Cr. Rs.
To Realisation (loss)	2,000	By Equity Share Capital A/c	20,00,000
To Equity Shares in Ram Ltd.	25,00,000	By General Reserve	13,00,000
To 14% Preference Shares in Ram Ltd.	5,00,000		
To Bank	2,98,000		
	33,00,000		33,00,000

Books of Ram Ltd.

Journal

		Dr. Rs.	Cr. Rs.
Business Purchase A/c	Dr.	33,00,000	
To Liquidator of Laxman Ltd.			33,00,000
(Being the purchase price agreed to be paid for the business of Laxman Ltd.)			
Land and Buildings	Dr.	16,00,000	
Plant and Machinery	Dr.	14,00,000	
Patent Rights	Dr.	3,50,000	
Stock	Dr.	2,00,000	
Sundry Debtors	Dr.	4,00,000	
Investments against Sinking Fund	Dr.	1,00,000	
Investments against Staff Provident Fund	Dr.	1,50,000	
Cash at Bank	Dr.	30,000	
To Provision for Doubtful Debts			40,000
To Sinking Fund Account			1,00,000
To 12% Loan			4,00,000
To Sundry Creditors			1,40,000
To Employees Profit Sharing Reserve			1,00,000
To Staff Provident Fund			1,50,000
To Business Purchase Account			33,00,000
(Being assets and liabilities taken over by Ram Ltd. for purchase consideration)			
Liquidator of Laxman Ltd.	Dr.	33,00,000	
To 14% Preference Share Capital Account			5,00,000
To Equity Share Capital Account			25,00,000
To Bank			3,00,000
(Being an allotment of 14% preference shares and equity shares and payment of cash in satisfaction of the consideration for business)			

Goodwill	Dr.	8,000	
To Bank			8,000
(Being reimbursement of expenses of Laxman Ltd. to the extent of Rs. 8,000)			
Goodwill	Dr.	8,000	
To Stock			8,000
(Being elimination of unrealized profit from the stock sold to Laxman Ltd.)			
Sundry Creditors Account	Dr.	80,000	
To Sundry Debtors Account			80,000
(Being elimination of Rs. 80,000 included in creditors of Laxman Ltd. and in debtors of Ram Ltd. being the sum owed by the former to the latter)			

Note:

Whereas the market price of the equity shares in Ram Ltd. is Rs. 140, making entries at par does not really make a difference. Had the entries been made at Rs. 140, purchase consideration will increase by Rs.10,00,000 and accordingly the amount of goodwill would have been increased but, then, Rs. 40 per share would have been credited to Securities Premium Account. Shareholders of Laxman Ltd. have also not suffered at all because, although in the books the equity shares in Ram Ltd. have been recorded at Rs. 100, they have in fact received shares worth Rs. 140.

This shows that if a transferee company does not want to show both goodwill and premium on shares resulting from the acquisition of another company, it should record the issue of its shares at par. One should remember that once an amount is credited to Securities Premium Account, it cannot be used to write off assets like Goodwill.

Illustration 3

P and Q have been carrying on same business independently. Due to competition in the market, they decided to amalgamate and form a new company called PQ Ltd.

Following is the Balance Sheet of P and Q as at 31.3.2007:

Liabilities	**P Rs.**	**Q Rs.**	**Assets**	**P Rs.**	**Q Rs.**
Capital	7,75,000	8,55,000	Plant & machinery	4,85,000	6,14,000
Current liabilities	6,23,500	5,57,600	Building	7,50,000	6,40,000
			Current assets	1,63,500	1,58,600
	13,98,500	14,12,600		13,98,500	14,12,600

Following are the additional information:

(i) The authorised capital of the new company will be Rs.25,00,000 divided into 1,00,000 equity shares of Rs.25 each.

(ii) Liabilities of P includes Rs.50,000 due to Q for the purchases made. Q made a profit of 20% on sale to P.

(iii) P has goods purchased from Q, cost to him Rs.10,000. This is included in the Current asset of P as at 31st March, 2007.

(iv) The assets of P and Q are to be revalued as under:

	P Rs.	Q Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000

(v) The purchase consideration is to be discharged as under:

(a) Issue 24,000 equity shares of Rs. 25 each fully paid up in the proportion of their profitability in the preceding 2 years.

(b) Profits for the preceding 2 years are given below:

	P Rs.	Q Rs.
1st year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

(c) Issue 12% preference shares of Rs.10 each fully paid up at par to provide income equivalent to 8% return on capital employed in the business as on 31.3.2007 after revaluation of assets of P and Q respectively.

You are required to:

(i) Compute the amount of equity and preference shares issued to P and Q.

(ii) Prepare the Balance Sheet of P & Q Ltd. immediately after amalgamation.

Solution:

(i)

Calculation of amount of equity shares issued to P and Q

Profits of	P	Q
	Rs.	Rs.
Ist year	2,62,800	2,75,125
IInd year	2,12,200	2,49,875
Total	4,75,000	5,25,000

No. of shares to be issued = 24,000 equity shares in the proportion of the preceding 2 years' profitability

24000 x 475/1000	11,400 equity shares
24000 x 525/1000	12,600 equity shares

Calculation of amount of 12% Preference shares issued to P and Q

	P	Q
	Rs.	Rs.
Capital employed (Refer working note 1)	8,40,000	9,24,000
8% return on capital employed	67,200	73,920
12% Preference shares to be issued [67,200 x (100 / 12)]	Rs. 5,60,000	
[73,920 x (100 / 12)]		Rs. 6,16,000

Total Purchase Consideration

	P	Q
	Rs.	Rs.
Equity Shares	2,85,000	3,15,000
12% Preference shares	5,60,000	6,16,000
Total	8,45,000	9,31,000

(ii)

Balance Sheet of PQ Ltd. (after amalgamation)

Liabilities	Rs.	Assets	Rs.
Authorised share capital:		Fixed assets:	
1,00,000 Equity Share		Goodwill (W.N.1)	14,000
of Rs.25 each	25,00,000	Plant and Machinery	12,00,000
Issued & subscribed		Building	14,23,000
share capital:		Current Assets (W.N.2)	2,70,100
24,000 Equity Shares			
of Rs.25 each	6,00,000		
1,17,600 12% Preference			
shares of Rs.10 each	11,76,000		

(All of the equity and preference shares have been issued for consideration other than cash)		
Current Liabilities (W.N. 3)	11,31,100	
	29,07,100	29,07,100

Working Notes:

1. **Goodwill**

	P Rs.	Q Rs.
Plant and machinery	5,25,000	6,75,000
Building	7,75,000	6,48,000
Current assets	1,63,500	1,58,600
	14,63,500	14,81,600
Less: Current liabilities	6,23,500	5,57,600
Net assets taken (capital employed)	8,40,000	9,24,000
Less: Purchase consideration	8,45,000	9,31,000
Goodwill	5,000	7,000
Total purchased goodwill		12,000
Add: Unrealized profit of Rs.10,000 @ 20% = Rs.2,000 is adjusted from current assets and from goodwill (since P & L A/c is not given)		2,000
Total Goodwill		14,000

2. **Current Assets**

	P Rs.	Q Rs.
Balances before amalgamation	1,63,500	1,58,600
Less: Liabilities of P due to Q	-	50,000
Less: Unrealized Profit on stock i.e.Rs.10,000 x 20%	2,000	
Total	1,61,500	1,08,600
Grand Total		2,70,100

3. **Current Liabilities**

	P Rs.	Q Rs.
Balances before amalgamation	6,23,500	5,57,600
Less: Liabilities of P due to Q	50,000	-
Total	5,73,500	5,57,600
Grand Total		11,31,100

Illustration 4

The Balance Sheet of Reckless Ltd. as on 31st March, 2008 is as follows:

		Rs.
Assets:		
Freehold premises		2,20,000
Machinery		1,77,000
Furniture & fittings		90,800
Stock		3,87,400
Sundry debtors	80,000	
Less: Provision for doubtful debts	4,000	76,000
Cash in hand		2,300
Cash at bank		1,56,500
Bills receivable		15,000
		11,25,000
Liabilities		
60,000 Equity shares of Rs. 10 each		6,00,000
Pre-incorporation profit		21,000
Contingency reserve		1,35,000
Profit and loss appropriation account		1,26,000
Acceptances		20,000
Creditors		1,13,000
Provision for income-tax		1,10,000
		11,25,000

Careful Ltd. decided to take over Reckless Ltd. from 31st March. 2008 with the following assets at value noted against them:

	Rs.
Bills receivable	15,000
Freehold premises	4,00,000
Furniture and fittings	80,000
Machinery	1,60,000
ack	3,45,000

¼ of the consideration was satisfied by the allotment of fully paid preference shares of Rs. 100 each at par which carried 13% dividend on cumulative basis. The balance was paid In the form of Careful Ltd’s equity shares of Rs. 10 each, Rs. 8 paid up.

Sundry Debtors realised Rs. 79,500. Acceptances were settled for Rs. 19,000. Income-tax authorities fixed the taxation liability at Rs. 1,11,600. Creditors were finally settled with the cash remaining after meeting liquidation expenses amounting to Rs. 4,000.

You are required to:

(i) Calculate the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of consideration.

(ii) Prepare the important ledger accounts in the books of Reckless Ltd. and

(iii) Pass journal entries in the books of Careful Ltd. with narration. (16 Marks)

Solution :

(i) Calculation of the number of equity shares and preference shares to be allotted by Careful Ltd. in discharge of purchase consideration

Calculation of purchase consideration:	**Rs.**
Agreed value of assets taken over:	
Bills receivable	15,000
Freehold premises	4,00,000
Furniture & fittings	80,000
Machinery	1,60,000
Stock	3,45,000
	10,00,000

Discharge of purchase consideration:

1. Amount paid by allotment of 13% preference shares
   = Rs. 10,00,000 x ¼
   = Rs. 2,50,000

   Number of 13% preference shares of Rs. 100 each
   = Rs. 2,50,000/ Rs. 100 = 2,500 preference shares

2. Amount paid by allotment of equity shares
   = Rs.10.00,000 - Rs.2,50.000 = Rs.7,50,000
   Paid up value of one equity share = Rs. 8 each
   Hence. the number of equity shares allotted
   = Rs.7,50,000/ Rs. 8 = 93,750 equity shares

(ii) Ledger accounts in the books of Reckless Ltd.

Realisation Account

	Rs.		Rs.
To Freehold premises	2,20,000	By Creditors	1,13,000
To Machinery	1,77,000	By Acceptances	20,000
To Furniture & fittings	90,800	By Provision for tax	1,10,000
To Stock	3,87,400	By Provision for doubtful debts	4,000
To Sundry debtors	80,000	By Careful Ltd.	10,00,000
To Bills receivable	15,000	By Cash/ Bank:	
To Cash/ Bank:		Sundry debtors	79,500
Acceptances	19,000		
Provision for tax	1,11,600		
Creditors	1,03,700		
To Cash/ Bank:			
Liquidation expenses	4,000		
To Profit	1,18,000		
	13,26,500		13,26,500

Cash and bank A/c

	Rs.		Rs.
To Balance b/d -		By Realisation A/c	
Cash at bank	1,56,500	Acceptances	19,000
Cash in hand	2,300	Provision for tax	1,11,600
To Realisation A/c (Debtors)	79,500	By Realisation A/c	
		(Expenses)	4,000
		By Realisation A/c	
		[Creditors (bal fig.)]	1,03,700
	2.38,300		2,38,300

Equity Shareholders A/c

	Rs.		Rs.
To 13% Cumulative preference		By Equity share capital	6,00,000
shares in Careful Ltd.	2,50,000	By Pre-incorporation profit	21,000
To Equity shares in Careful Ltd.	7,50,000	By Contingency reserve	1,35,000
		By P&L Appropriation A/c	1,26,000
		By Realisation A/c	1,18,000
	10,00,000		10,00,000

Careful Ltd. A/c

	Rs.		Rs.
To Realisation A/c	10,00,000	By 13% Cumulative preference	
		shares in Careful Ltd.	2,50,000
		By Equity shares in Careful Ltd.	7,50,000
	10,00,000		10,00,000

(iii) Journal Entries in the books of Careful Ltd.

Business purchase Account	Dr.	10,00,000	
To liquidator of Reckless Ltd. Account			10,00,000
(Being amount payable to liquidator of Reckless Ltd. for assets taken over)			
Bills receivable Account	Dr.	15,000	
Freehold premises Account	Dr.	4,00,000	
Furniture & fittings Account	Dr.	80,000	
Machinery Account	Dr.	1,60,000	
Stock Account	Dr.	3,45,000	
To Business purchase Account			10,00,000
(Being assets taken over from Reckless Ltd.)			
Liquidator of Reckless ltd.	Dr.	10,00,000	
To 13% Cumulative preference share capital Account			2,50,000
To Equity share capital Account			7,50,000
(Being allotment of 13% cumulative preference shares of RS.100 each fully paid up and equity shares of RS.10 each, RS.8 paid up)			

Illustration 5

(a) The following is the Balance Sheet of Bumbum Limited as at 31st March, 2009.

Sources of funds	
Authorized capital	
50,000 Equity shares of 10 each	5,00000
10,000 Preference shares of 100 each	10,00,000
	15,00,000
Issued subscribed and paid up	
30,000 Equity shares of 10 each	3,00,000
5,000 Redeemable 8% Preference shares of 100 each	5,00,000
Reserves & Surplus	
Securities Premium	6,00,000
General Reserve	6,50,000
Profit & Loss A/c	1,80,000
2500, 9% Debentures of 100 each	2,50,000
Sundry Creditors	1,70,000
	26,50,000
Application of funds	
Fixed Assets (net)	7,80,000
Investments (market value 5,80,000)	4,90,000
Deferred Tax Assets	3,40,000
Sundry Debtors	5,20,000
Cash & Bank balance	2,80,000
Preliminary expenses	1,40,000
	26,50,000

In Annual General Meeting held on 20th June, 2009 the company passed the following resolutions:

(i) To split equity share of 10 each into 5 equity shares of 2 each from 1st July, 09.

(ii) To redeem 8% preference shares at a premium of 5%.

(iii) To redeem 9% Debentures by making offer to debenture holders to convert their holdings into equity shares at 10 per share or accept cash on redemption.

(iv) To issue fully paid bonus shares in the ratio of one equity share for every 3 shares held on record date.

On 10th July, 2009 investments were sold for 5,55,000 and preference shares were redeemed.

40% of Debentureholders exercised their option on accept cash and their claims were settled on 1st August, 2009.

The company fixed 5th September, 2009 as record date and bonus Issue was concluded by 12th September, 2009.

You are requested to journalize the above transactions including cash transactions and prepare Balance Sheet as at 30th September, 2009. All working notes should form part of your answer. (12 Marks)

(a)

Bumbum Limited
Journal Entries

2009			Dr.	Cr.
July 1	Equity Share Capital A/c (10 each)	Dr.	3,00,000	
	To Equity share capital A/c (2 each)			3,00,000
	(Being equity share of' 10 each splitted into 5 equity shares of' 2 each)			
	Cash & Bank balance A/c	Dr.	5,55,000	
	To Investment A/c			4,90,000
	To Profit & Loss A/c			65,000
	(Being investment sold out and profit on sale credited to Profit & Loss A/c)			
July 10	8% Redeemable preference share capital A/c	Dr	5,00,000	
	Premium on redemption of preference share A/c	Dr	25,000	
	To Preference shareholders A/c			5,25,000
	(Being amount payable to preference share holders on redemption)			

July 10	Preference shareholders A/c	Dr.	5,25,000	
	To Cash & bank A/c			5,25,000
	(Being amount paid to preference shareholders)			
July 10	Securities premium A/c	Dr.	5,00,000	
	To Capital redemption reserve A/c			5,00,000
	(Being amount equal to nominal value of preference shares transferred to Capital Redemption Reserve A/c on its redemption as per the law)			
Aug 1	9% Debentures Ale	Dr.	2,50,000	
	Interest on debentures A/c	Dr.	7,500	
	To Debentureholders A/c			2,57,500
	(Being amount payable to debenture holders along with interest payable)			
Aug. 1	Debenture holders A/c	Dr	2,57,500	
	To Cash & bank A/c (1,00,000 + 7,500)			1,07,500
	To Equity share capital Ale			30,000
	To Securities premium Ale			1,20,000
	(Being claims of debenture holders satisfied)			
Sept. 5	Securities premium A/c	Dr.	1,10,000	
	To Bonus to shareholders A/c			1,10,000
	(Being securities premium capitalized to issue bonus shares)			
Sept. 12	Bonus to shareholders A/c	Dr.	1,10,000	
	To Equity share capital A/c			1,10,000
	(Being 55,000 fully paid equity shares of' 2 each issued as bonus in ratio of 1 share for every 3 shares held)			
Sept 30	Securities Premium A/c	Dr	25,000	
	To Premium on redemption of preference shares A/c			25,000
	(Being premium on preference shares adjusted from securities premium account)			
Sept. 30	Profit & Loss A/c	Dr.	7,500	
	To Interest on debentures A/c			7,500
	(Being interest on debentures transferred to Profit and Loss Account)			

Note: For capitalisation of Bonus shares and transfer to capital redemption reserve account any other free reserves given in the balance sheet may also be used.

Balance Sheet as at 30th September, 2009

Sources of funds	
Authorized share capital	
2,50,000 Equity shares of' 2 each	5,00,000
10,000 Preference shares of' 100 each	10,00,000
	15,00,000
Issued, subscribed and paid up	
2,20,000 Equity shares of' 2 each	4,40,000
Reserves & Surplus	
Securities Premium	85,000
Capital Redemption Reserve	5,00,000
General Reserve	6,50,000
Profit & Loss A/c (1,80,000 + 65,000 - 7,500)	2,37,500
Current Liabilities & Provisions	
Sundry Creditors	1,70,000
Total	20,82,500
Application of funds	
Fixed assets (Net)	7,80,000
Deferred tax assets	3,40,000
Sundry debtors	6,20,000
Cash & bank balance	2,02,500
Preliminary expenses	1,40000
	20,82,500

Working Notes:

1. **Redemption of preference share:**

5000 preference shares of 100 each	5,00,000
Premium on redemption @ 5%	25,000
	5,25,000

2. **Redemption of Debentures**

2,500 Debentures of' 100 each	2,50,000
Less: Cash option exercised by 40% holders	(1,00,000)
Conversion option exercised by remaining 60%	1,50,000

Equity shares issued on conversion = $\frac{1,50,000}{10}$ = 15,000 shares

3. **Issue of Bonus Shares**

Existing equity shares after split (30,000 x 5)	1,50,000 shares
Equity shares issued on conversion	15,000 shares
Equity shares entitled for Bonus	1,65,000 shares
Bonus shares (1 share for every 3 shares held) to be issued	55,000 shares

4. Securities Premium A/c

Balance as per balance sheet	6,00,000
Add: Premium on equity shares issued on conversion of debentures (15,000 x 8)	1,20,000
	7,20,000
Less: Capitalization for bonus issue (55,000 x 2)	(1,10,000)
Adjustment for premium on preference shares	(25,000)
Transfer to capital redemption reserve	(5,00,000)
Balance	85,000

5 Cash and Bank Balance

Balance as per balance sheet	2,80,000
Add: Realization on sale of investment	5,55,000
	8,35,000
Less: Paid to preference share holders	(525,000)
Paid to Debenture holders (7,500 + 1,00,000)	(1 07,500)
Balance	2,02,500

6. Interest of' 7,500 paid to debenture holders have been debited to Profit & loss Account.

Illustration 6

The following are the Balance Sheets of M Ltd. and N Ltd. as at 31st March, 2009:

(Rs. in lakhs)

Liabilities	**M Ltd.**	**N Ltd.**
Fully paid equity shares of Rs.10 each	3,600	900
10% preference shares of Rs.10 each, fully paid up	1,200	-
Capital Reserve	600	-
General Reserve	2,100	-
Profit and Loss Account	780	-
8% Redeemable debentures of Rs.1,000 each	-	300
Trade Creditors	2,421	369
Provisions	870	93
	11,571	1,662
Assets		
Plant and Machinery	4,215	468
Furniture and Fixtures	2,400	183
Motor Vehicles	-	51
Stock	2,370	444
Sundry Debtors	1,044	237
Cash at Bank	1,542	240
Preliminary Expenses	-	33
Discount on Issue of Debentures	-	6
	11,571	1,662

A new Company MN Ltd. was incorporated with an authorised capital of Rs.15,000 lakhs divided into shares of Rs.10 each. For the purpose of amalgamation in the nature of merger, M Ltd. and N Ltd. were merged into MN Ltd. on the following terms:

(i) Purchase consideration for M Ltd.'s business is to be discharged by issue of 120 lakhs fully paid 11% preference shares and 720 lakhs fully paid equity shares of MN Ltd. to the preference and equity shareholders of M Ltd. in full satisfaction of their claims.

(ii) To discharge purchase consideration for N Ltd.'s business, MN Ltd. to allot 90 lakhs fully paid up equity shares to shareholders of N Ltd. in full satisfaction of their claims.

(iii) Expenses on the liquidation of M Ltd. and N Ltd. amounting to Rs.6 lakhs are to be borne by MN Ltd.

(iv) 8% redeemable debentures of N Ltd. to be converted into 8.5% redeemable debentures of MN Ltd.

(v) Expenses on incorporation of MN Ltd. were Rs.15 lakhs.

You are requested to:

(a) Pass necessary Journal Entries in the books of MN Ltd. to record above transactions, and
(b) Prepare Balance Sheet of MN Ltd. after merger. (16 Marks)

Solution :

In the books of MN Ltd.
Journal Entries

(Rs. in lakhs)

		Dr.	Cr.
Business Purchase Account	Dr.	9,300	
To Liquidator of M Ltd.			8,400
To Liquidator of N Ltd.			900
(Being consideration payable to liquidators of the two companies taken over)			
Plant and Machinery Account (4,215+468)	Dr.	4,683	
Furniture and Fixtures Account (2,400+183)	Dr.	2,583	
Motor Vehicles Account	Dr.	51	
Stock Account (2,370+444)	Dr.	2,814	
Sundry Debtors Account (1,044+237)	Dr.	1,281	
Cash at Bank Account (1,542+240)	Dr.	1,782	
Preliminary Expenses Account	Dr.	33	
Discount on issue of Debentures Account	Dr.	6	
Profit and Loss Account (Refer W.N.)	Dr.	120	
To 8% Redeemable Debentures of N Ltd. Account			300
To Trade Creditors Account (2,421+369)			2,790
To Provisions Account (870+93)			963
To Business Purchase Account			9,300

(Being incorporation of all the assets and liabilities and the excess of consideration over the share capital being adjusted against reserves and surplus)			
Liquidator of M Ltd. Account	Dr.	8,400	
Liquidator of N Ltd. Account	Dr.	900	
To Equity Share Capital Account (7,200+900)			8,100
To 11% Preference Share Capital Account			1,200
(Being allotment of fully paid shares in discharge of purchase consideration)			
Profit and Loss Account	Dr.	6	
To Bank Account			6
(Being payment of liquidation expenses of M Ltd. and N Ltd.)			
Preliminary Expenses Account	Dr.	15	
To Bank Account			15
(Being expenses on incorporation of MN Ltd.)			
8% Redeemable Debentures of N Ltd. Account	Dr.	300	
To 8.5% Redeemable Debentures Account			300
(Being conversion of 8% Debentures of N Ltd. into 8.5% Debentures)			

Balance Sheet of MN Ltd.

(Rs. in lakhs)

Liabilities	**Rs.**	**Assets**	**Rs.**
Authorised Share Capital:		**Fixed Assets:**	
15 crore shares of Rs.10 each	15,000	Plant and Machinery	4,683
Issued, subscribed and paid up:		Furniture and Fixtures	2,583
810 lakhs Equity shares		Motor Vehicles	51
of Rs.10 each, fully paid	8,100	**Current Assets, Loans & Advances:**	
120 lakhs 11% Preference shares		(A) Current Assets	
of Rs.10 each, fully paid	1,200	Stock	2,814
(All the above mentioned shares have		Sundry Debtors	1,281
been issued for consideration other		Cash at Bank (1,782–6–15)	1,761
than cash)		(B) Loans and Advances	Nil
Secured Loans:		**Miscellaneous Expenditure:**	
8.5% Redeemable Debentures	300	Preliminary Expenses (33+15)	48
Current Liabilities & Provisions:		Discount on Issue of Debentures	6
(A) Current Liabilities		Profit & Loss A/c. (120+6)	126
Trade Creditors	2,790		
(B) Provisions	963		
	13,353		13,353

Working Note:

Profit and Loss Account

		(Rs. in lakhs)
Total consideration = Rs.(8,400 + 900) lakhs		9,300
Less: Share Capital of Companies taken over [Rs.(3,600+1,200+900) lakhs]		5,700
		3,600
Amount to be adjusted:		
Capital Reserve	600	
General Reserve	2,100	
Profit & Loss A/c	780	3,480
Debit balance of Profit & Loss Account		120

Internal reconstruction

Illustration 1

The paid-up capital of Toy Ltd. amounted to Rs. 2,50,000 consisting of 25,000 equity shares of Rs. 10 each.

Due to losses incurred by the company continuously, the directors of the company prepared a scheme for reconstruction which was duly approved by the court. The terms of reconstruction were as under:

(i) In lieu of their present holdings, the shareholders are to receive:
   (a) Fully paid equity shares equal to 2/5th of their holding.
   (b) 5% preference shares fully paid-up to the extent of 20% of the above new equity shares.
   (c) 3,000 6% second debentures of Rs. 10 each.

(ii) An issue of 2,500 5% first debentures of Rs. 10 each was made and fully subscribed in cash.

(iii) The assets were reduced as follows:
   (a) Goodwill from Rs. 1,50,000 to Rs. 75,000.
   (b) Machinery from Rs. 50,000 to Rs. 37,500.
   (c) Leasehold premises from Rs. 75,000 to Rs. 62,500.

Show the journal entries to give effect to the above scheme of recontrsuction.

Solution :

Journal Entires

		Rs.	Rs.
Share Capital A/c (old)	Dr.	2,50,000	
To Equity Share Capital A/c			
($\frac{2}{5}$ of Rs. 2,50,000)			1,00,000
To 5% Preference Share Capital A/c			
($\frac{20}{100} \times$ Rs. 1,00,000)			20,000
To 6% Second Debntures A/c			30,000
To Capital Reduction A/c			1,00,000
(Conversion of 25,000 Equity Shares and balance being transferred to Capital Reduction A/c in accordance with the Scheme of internal reconstruction as per Special Resolution dated..........as confirmed by the Court Order dated........)			
Bank A/c	Dr.	25,000	
To 5% First Debenture A/c			25,000
(Issue of Rs. 25,000 5% First Debentures for cash as per scheme of internal reconstruction)			

Capital Reduction A/c	Dr.	1,00,000	
To Goodwill A/c			75,000
To Plant & Machinery A/c			12,500
To Leasehold premises A/c			12,500
(Sundry Assets written down as per scheme of internal reconstruction			

Illustration 2

The following are the summarised Balance Sheets of X Ltd. and Y Ltd :

	X Ltd. Rs.	Y Ltd. Rs.
Liabilities :		
Share Capital	1,00,000	50,000
Profit & Loss A/c	10,000	–
Creditors	25,000	5,000
Loan X Ltd.	—	15,000
	1,35,000	70,000
Assets :		
Sundry Assets	1,20,000	60,000
Loan Y Ltd.	15,000	–
Profit & Loss A/c	—	10,000
	1,35,000	70,000

A new company XY Ltd. is formed to acquire the sundry assets and creditors of X Ltd. and Y Ltd. and for this purpose, the sundry assets of X Ltd. are revalued at Rs. 1,00,000. The debt due to X Ltd. is also to be discharged in shares of XY Ltd.

Show the Ledger Accounts to close the books of X Ltd. (8 marks)

Solution :

Books of X Ltd.

Realisation Account

	Rs.		Rs.
To Sundry Assets	1,20,000	By Creditors	25,000
		By XY Ltd. (Purchase consideration)	75,000
		By Shareholders (Loss on realisation)	20,000
	1,20,000		1,20,000

Shareholders Account

	Rs.		Rs.
To Realisation Account (Loss)	20,000	By Share Capital	1,00,000
To Shares in XY Ltd.	90,000	By Profit and Loss Account	10,000
	1,10,000		1,10,000

Loan Y Ltd.

	Rs.		Rs.
To Balance b/d	15,000	By Shares in XY Ltd.	15,000

Shares in XY Ltd.

	Rs.		Rs.
To XY Ltd.	75,000	By Shareholders	90,000
To Loan Y Ltd.	15,000		
	90,000		90,000

XY Ltd.

	Rs.		Rs.
To Realisation Account	75,000	By Shares in XY Ltd.	75,000

Illustration 3

The following is the Balance Sheet of Rocky Ltd. as at March 31, 2002:

Liabilities	Rs. in lacs
Fully paid equity shares of Rs. 10 each	500
Capital Reserve	6
12% Debentures	400
Debenture Interest Outstanding	48
Trade Creditors	165
Directors' Remuneration Outstanding	10
Other Outstanding Expenses	11
Provisions	33
	1,173
Assets	
Goodwill	15
Land and Building	184
Plant and Machinery	286
Furniture and Fixtures	41
Stock	142
Debtors	80
Cash at Bank	27
Discount on Issue of Debentures	8
Profits and Loss Account	390
	1,173

The following scheme of internal reconstruction was framed, approved by the Court, all the concerned parties and implemented:

(i) All the equity shares be converted into the same number of fully-paid equity shares of Rs. 2.50 each.

(ii) Directors agree to forego their outstanding remuneration.

(iii) The debentureholders also agree to forego outstanding interest in return of their 12% debentures being converted into 13% debentures.

(iv) The existing shareholders agree to subscribe for cash, fully paid equity shares of Rs. 2.50 each for Rs. 125 lacs.

(v) Trade creditors are given the option of either to accept fully-paid equity shares of Rs. 2.50 each for the amount due to them or to accept 80% of the amount due in cash. Creditors for Rs. 65 lacs accept equity shares whereas those for Rs. 100 lacs accept Rs. 80 lacs in cash in full settlement.

(vi) The Assets are revalued as under :

	Rs. in lacs
Land and building	230
Plant and Machinery	220
Stock	120
Debtors	76

Pass Journal Entries for all the above mentioned transactions and draft the company's Balance Sheet immediately after the reconstruction.(20 marks) (Intermediate–May 2002)

Solution :

Journal Entries

		Rs. in lacs Dr.	Cr.
Equity Share Capital (Rs. 10 each) A/c	Dr.	500	
To Equity Share Capital (Rs. 2.50 each) A/c			125
To Reconstruction A/c			375
(Conversion of all the equity shares into the same number of fully paid equity shares of Rs. 2.50 each as per scheme of reconstruction)			
Director's Remuneration Outstanding A/c	Dr.	10	
To Reconstruction A/c			10
(Outstanding remuneration foregone by the directors as per scheme of reconstruction)			
12% Debentures A/c	Dr.	400	
Debenture Interest Outstanding A/c	Dr.	48	
To 13% Debentures A/c			400
To Reconstruction A/c			48
(Conversion of 12% debentures into 13% debentures, Debentureholders forgoing outstanding debenture interest)			
Bank	Dr.	125	
To Equity Share Application A/c			125
(Application money received for equity shares)			
Equity Share Application A/c	Dr.	125	
To Equity Share Capital (Rs. 2.50 each) A/c			125

(Application money transferred to share cpital)			
Trade Creditors	Dr.	165	
To Equity Share Capital (Rs. 2.50 each) A/c			65
To Bank A/c			80
To Reconstruction A/c			20
(Trade creditors for Rs. 64 lakhs accepting shares for full amount and those for Rs. 100 lakhs accepting cash equal to 80% of claim in full settlement)			
Capital Reserve	Dr.	6	
To Reconstruction A/c			6
(Capital Reserve being used for purpose of reconstruction)			
Land and Building	Dr.	46	
To Reconstruction A/c			46
(Appreciation made in the value of land and building as per scheme of reconstruction)			
Reconstruction A/c	Dr.	505	
To Goodwill			15
To Plant and Machinery			66
To Stock			22
To Debtors			4
To Discount on issue of Debentures			8
To Profit and Loss Account			390
(Writing off losses and reduction in the values of assets as per scheme of reconstruction—W.N. 1)			

Balance Sheet of Rocky Ltd. (and Reduced) as on 31st March, 2002

Liabilities	**Rs. in lacs**
1,26,000 Fully paid equity shares of Rs. 2.50 each (W.N. 2)	315
(26,000 shares have been issued for consideration other than cash)	
13% Debentures	400
Outstanding Expenses	11
Provisions	33
	759

Assets	**Rs. in lack**	**Rs. in lacs**
Goodwill	15	
Less : Amount written off under scheme of reconstruction dated...........	15	Nil
Land and Building	184	
Add : Amount of appreciation made under scheme of reconstruction dated..........	46	230
Plant and Machinery	286	
Less: Amount written off under scheme of		

reconstruction dated.........	66	220
Furniture and Fixtures		41
Stock		120
Debtors	80	
Less: Provision for Bad Debts	4	76
Cash at bank		72
		759

Note : Goodwill has been written off under reconstruction scheme in the solution given above.

Working Notes:

1.

(Rs. in lacs)

Reconstruction Account

	Rs.		Rs.
To Goodwill	15	By Equity Share Capital A/c	375
To Plant and Machinery	66	By Director's Remuneration Outstanding A/c	10
To Stock	22	By Debenture Interest Outstanding A/c	48
To Debtors	4	By Trade Creditors	20
To Discount on issue of Debentures	8	By Capital Reserve	6
		By Land and Building	46
To Profit and Loss A/c	390		
	505		505

2. Equity share capital as on 31st March, 2002 (after reconstruction)

	Rs.
Equity Share Capital (Rs. 2.50 each)	125
Add: Fresh issue	125
Add: Equity shares issued to creditors	65
	315

3. Cash at bank as on 31st March, 2002 (after reconstruction)

Cash at bank (before reconstruction)	27
Add: Proceeds from issue of equity shares	125
	152
Less: Payment made to creditors	80
	72

Illustration 4

The following Balance Sheets are given as on 31st March, 2008:

	(Rs. in lakhs)			(Rs. in lakhs)	
	Best Ltd. Rs.	Better Ltd. Rs.		Best Ltd. Rs.	Better Ltd. Rs.
Share Capital:			Fixed Assets	25	15
Shares of Rs. 100, each			Investments	5	-
fully paid	20	10	Current Assets	20	5
Reserve and Surplus	10	8			
Other Liabilities	20	2			
	50	20		50	20

The following further information is given .

(a) Investments of Best Ltd. include Rs. 3 lakhs representing shares in Better Ltd. having a face value of Rs. 2 lakhs.

(b) Better Limited issued shares on 1st April, 2008, in the ratio of one share for every two held, out of Reserves and Surplus.

(c) It was agreed that Best Ltd. will take over the business of Better Ltd., on the basis of the latter's Balance Sheet, the consideration taking the form of allotment of shares in Best Ltd.

(d) The value of shares in Best Ltd. was considered to be Rs. 150 and the shares in Better Ltd. were valued at Rs. 100 after the issue of the bonus shares. The allotment of shares is to be made on the basis of these values.

(e) Liabilities of better Ltd., included Rs. 1 lakh due to Best Ltd., for purchases from it, on which Best Ltd., made profit of 25% of the cost. The goods of Rs. 50,000 out of the said purchases, remained in stock on the date of the above Balance Sheet.

Make the closing ledger in the Books of Better Ltd. and the opening journal entries in the Books of Best Ltd., and prepare the Balance Sheet as at 1st April, 2008 after the takeover.

Solution :

LEDGER OF BETTER LIMITED

Fixed Assets Account

	Rs.		Rs.
To Balance b/d	15,00,000	By Realisation A/c (transfer)	15,00,000

Current Assets Account

	Rs.		Rs.
To Balance b/d	5,00,000	By Realisation A/c (transfer)	5,00,000

Liabilities Account

	Rs.		Rs.
To Realisation A/c	2,00,000	By Balance b/d	2,00,000

Realisation Account

To Fixed Assets A/c	15,00,000	By Liabilities A/c	2,00,000
To Current Assets A/c	5,00,000	By Best Limited (Purchase Consideration)	15,00,000
		By Shareholders. A/c (Loss on Realisation)	3,00,000
	20,00,000		20,00,000

Share Capital Account

To Sundry shareholders A/c - (transfer)	15,00,000	By Balance b/d	10,00,000
		By Reserves & Surplus A/c (Bonus issue)	5,00,000
	15,00,000		15,00,000

Reserves & Surplus A/c

To Share Capital (Bonus issue)	5,00,000	By Balance b/d	8,00,000
To Sundry Shareholders	3,00,000		
	8,00,000		8,00,000

Best Ltd.

To Realisation A/c - Purchase Consideration	15,00,000	By Sundry Shareholders (1/5 of Purchase Consideration)	3,00,000
		By Shares in Best Ltd.	12,00,000
	15,00,000		15,00,000

Shares in Best Ltd.

To Best Ltd.	12,00,000	By Sundry Shareholders A/c	12,00,000

Sundry Shareholders A/c

To Realisation A/c (Loss)	3,00,000	By Share Capital A/c	15,00,000
		Reserves & Surplus A/c	3,00,000
To Best Ltd.	3,00,000		
To Share in Best Ltd.	12,00,000		
	18,00,000		18,00,000

JOURNAL OF BEST LTD.

			Dr. Rs.	Cr. Rs.
2008				
Apr. 1	Fixed Assets A/c	Dr.	15,00,000	
	Current Assets A/c	Dr.	5,00,000	
	To Liabilities A/c			2,00,000
	To Liquidator of Better Ltd.			12,00,000
	To Capital Reserve A/c			3,00,000
	To Shares in Better Ltd.			3,00,000
	(Assets & Liabilities of Better Ltd. taken over for an agreed purchase consideration of Rs. 12,00,000 and cancellation of investments, held in Better Ltd., at Rs. 3,00,000 as per agreement dated....)			
	Liquidator of Better Ltd.	Dr.	12,00,000	
	To Share Capital A/c			8,00,000
	To Securities Premium A/c			4,00,000
	(Discharge of Purchase consideration by the issue of equity shares of Rs. 8,00,000 at a premium of Rs. 50 per share as per agreement)			
	Sundry Creditors A/c	Dr.	1,00,000	
	To Sundry Debtors A/c		1,00,000	
	(Amount due from Better Ltd., and included in its creditors taken over, cancelled against own sundry debtors)			
	Capital Reserve A/c	Dr.	10,000	
	To Current Asset (Stock) A/c			10,000
	(Unrealized profit on stock included in current assets of Better Ltd. written off to Reserve Account)			

Working Note

Calculation of Purchase consideration :

	Rs.
Issued Capital of Better Ltd. (after bonus issue) at Rs. 100 per share	15,00,000
Less : held by Best Ltd.	3,00,000
Held by outsiders, valued at Rs. 100 per share	12,00,000

Purchase consideration has been discharged by Best Ltd. by the issue of shares for Rs. 8,00,000 at a premium of Rs. 4,00,000. This gives the value of Rs. 150 per share.

Balance Sheet of Best Ltd. (After absorption)

	Rs.		Rs.	Rs.
Share Capital				
Authorised				
... shares of Rs. 100 each				
Issued & Subscribed -		Fixed Assets		
28,000 shares of Rs. 100		Opening Balance	25,00,000	
each fully paid	28,00,000	Acquired during		
Of the above (8,000 shares		the year	15,00,000	40,00,000
have been issued for		Investment		2,00,000
consideration other than cash)		Current Assets		23,90,000
Reserves & Surplus :				
Securities Premium	4,00,000			
Capital Reserves	2,90,000			
Other Reserves and Surplus	10,00,000			
Current Liabilities	21,00,000			
	65,90,000			65,90,000

Illustration 5

K Ltd. and L Ltd. amalgamate to form a new company LK Ltd. The financial position of these two companies on the date of amalgamation was as under:

	K Ltd.	L Ltd.		K Ltd.	L Ltd.
	Rs.	Rs.		Rs.	Rs.
Share Capital			Goodwill	80,000	
Equity Shares			Land & Building	4,50,000	3,00,000
of Rs. 100 each	8,00,000	3,00,000	Plant & Machinery	6,20,000	5,00,000
7% Preference Share			Furniture and		

of Rs. 100 each	4,00,000	3,00,000	Fittings	60,000	20,000
5% Debentures	2,00,000	-	Sundry Debtors	2,75,000	1,75,000
General Reserve	-	1,00,000	Stores & Stock	2,25,000	1,40,000
Profit and Loss			Cash at Bank	1,20,000	55,000
Account	4,31,375	97,175	Cash in hand	41,375	17,175
Sundry Creditors	1,00,000	2,10,000	Preliminary		
Secured Loan	-	2,00,000	Expenses	60,000	-
	19,31,375	12,07,175		19,31,375	12,07,175

The terms of amalgamation are as under:

(A) (1) The assumption of liabilities of both the Companies.

(2) Issue of 5 Preference shares of Rs. 20 each in LK Ltd. @ Rs. 18 paid up at premium of Rs. 4 per share for each preference share held in both the Companies.

(3) Issue of 6 Equity shares of Rs. 20 each in LK Ltd. @ Rs. 18 paid up at a premium of Rs. 4 per share for each equity share held in both the Companies. In addition, necessary cash should be paid to the Equity Shareholders of both the Companies as is required to adjust the rights of shareholders of both the Companies in accordance with the intrinsic value of the shares of both the Companies.

(4) Issue of such amount of fully paid 6% debentures in LK Ltd. as is sufficient to discharge the 5% debentures in K Ltd. at a discount of 5% after takeover.

(B) (1) The assets and liabilities are to be taken at book values stock and debtors for which provisions at 2% and 2 ½ % respectively to be raised.

(2) The sundry debtors of K Ltd. include Rs. 20,000 due from L Ltd.

(C) The LK Ltd. is to issue 15,000 new equity shares of Rs. 20 each, Rs. 18 paid up at premium of Rs. 4 per share so as to have sufficient working capital. Prepare ledger accounts in the books of K Ltd. and L Ltd. to close their books.

Solution :

BOOKS OF K LTD.

Realisation Account

	Rs.		Rs.
To Goodwill	80,000	By 5% Debentures	2,00,000
To Land & Building	4,50,000	By Sundry creditors	1,00,000
To Plant & Machinery	6,20,000	By LK Ltd.	15,60,000
To Furniture & Fitting	60,000	(Purchase consideration)	
To Sundry debtors	2,75,000	By Equity shareholders A/c	51,375
To Stores & Stock	2,25,000	(loss)	
To Cash at Bank	1,20,000		
To Cash in hand	41,375		
To Preference shareholders			
(excess payment)	40,000		
	19,11,375		19,11,375

Equity Shareholders A/c

	Rs.		Rs.
To Preliminary Expenses	60,000	By Share capital	8,00,000
To Realisation A/c (loss)	51,375	By Profit & Loss A/c	4,31,375
To Equity Shares in LK Ltd.	10,56,000		
To Cash	64,000		
	12,31,375		12,31,375

LK Ltd. A/c

	Rs.			Rs.
To Realisation A/c	15,60,000	By Equity Shares in LK Ltd.		
		For Equity	10,56,000	
		Pref.	4,40,000	14,96,000
		By Cash		64,000
	15,60,000			15,60,000

BOOKS OF L LTD.

Realisation Account

	Rs.		Rs.
To Land & Building	3,00,000	By Sundry creditors	2,10,000
To Plant & Machinery	5,00,000	By Secured loan	2,00,000
To Furniture's & Fittings	20,000	By LK Ltd. (Purchase	
To Sundry debtors	1,75,000	consideration)	7,90,000
To Stock of stores	1,40,000	By Equity shareholders A/c.	
To Cash at bank	55,000	Loss	37,175
To Cash in hand	17,175		
To Pref. shareholders	30,000		
	12,37,175		12,37,175

Equity Shareholders Account

	Rs.		Rs.
To Equity shares in LK Ltd.	3,96,000	By Share Capital	3,00,000
To Realisation	37,175	By Profit & Loss A/c	97,175
To Cash	64,000	By Reserve	1,00,000
	4,97,175		4,97,175

LK Ltd. Account

	Rs.			Rs.
To Realisation A/c	7,90,000	By Equity shares in LK Ltd.		
		For Equity		3,96,000
		Preference	3,30,000	7,26,000
		By Cash		64,000
	7,90,000			7,90,000

Working Notes:

(i) Purchase consideration

	K Ltd. Rs.	L Ltd. Rs.
Payable to preference shareholders:		
Preference shares at Rs. 22 per share	4,40,000	3,30,000
Equity Shares at Rs. 22 per share	10,56,000	3,96,000
Cash [See W.N. (ii)]	64,000	64,000
	15,60,000	7,90,000

(ii) Value of Net Assets

		K Ltd. Rs.		L Ltd. Rs.
Goodwill		80,000		
Land & Building		4,50,000		3,00,000
Plant & Machinery		6,20,000		5,00,000
Furniture & Fittings		60,000		20,000
Debtors less 2.5%		2,68,125		1,70,625
Stock less 2%		2,20,500		1,37,200
Cash at Bank		1,20,000		55,000
Cash in hand		41,375		17,175
		18,60,000		12,00,000
Less : Debentures	2,00,000		-	
Creditors	1,00,000		2,10,000	
Secured Loans -	-	3,00,000	2,00,000	4,10,000
		15,60,000		7,90,000
Payable in shares		14,96,000		7,26,000
Payable in cash		64,000		64,000

Illustration 6

C Ltd. had Rs. 5,00,000 authorised capital on 31-12-2006 divided into shares of Rs. 100 each out of which 4,000 shares were issued and fully paid up. In June 2007 the Company decided to convert the issued shares into stock. But in June, 2008 the Company re-converted the stock into shares of Rs. 10 each fully paid up.

Pass entries and show how Share Capital will appear in Balance Sheet as on 31-12-2006, 31-12-2007 and 31-12-2008.

Solution :

Journal Entries

			Rs.	Rs.
2007				
June	Equity Share Capital A/c	Dr.	4,00,000	
	To Equity Stock A/c			4,00,000
	(Being conversion of 4,000 fully paid Equity Shares of Rs. 100 into Rs. 4,00,000 Equity Stock as per resolution in general meeting dated...)			
2008				
June	Equity Stock A/c	Dr.	4,00,000	
	To Equity Share Capital A/c			4,00,000
	(Being re-conversion of Rs. 4,00,000 Equity Stock into 40,000 shares of Rs. 10 fully paid Equity Shares as per resolution in General Meeting dated...			

Balance Sheet (includes)

Liabilities :

As on 31-12-2006	Rs.
1. Share Capital	
Authorised	
5,000 Equity Shares of Rs. 100 each	5,00,000
Issued and Subscribed	
4,000 Equity Shares of Rs. 100 each fully called up	4,00,000

As on 31-12-2007	Rs.
1. Share Capital	
Authorised	
5,000 Equity Shares of Rs. 100 each	5,00,000
Issued and Subscribed	
Equity Stock-4,000 Equity Shares of Rs. 100 converted into Stock	4,00,000

As on 31-12-2008	Rs.
1. Share Capital	
Authorised	
50,000 Equity Shares of Rs. 10 each	5,00,000
Issued and Subscribed	
40,000 Equity Shares of Rs. 10 each fully called up	4,00,000

CHAPTER - 8

Redemption of Preference Shares

Illustration 1

The Bharat Aluminium Co. Ltd whose issued share capital on 31st December, 1972, consisted of 12,000 8% redeemable preference shares of Rs. 100 each fully paid and 40,000 equity shares of Rs. 100 each Rs. 80 paid up, decided to redeem preference shares at a premium., of Rs. 10 per share. The company's balance sheet as at 31st December, 1972, showed a general reserve of Rs. 18,00,000 and a capital reserve of Rs. 1,70,000. The redemption was effected partly out of profits and partly out of the proceeds of a new issue of 6,000 7.5% cumulative preference shares of Rs. 100 each at a premium of Rs. 25 per share. The premium payable on redemption was met out of the premium received on the new issue.

On 1st April, 1973, the company at its general meeting resolved that all the capital reserves be applied in the following manner: *(i)* the declaration of bonus at the rate of Rs. 20 per share on equity shares for the purpose of making the said equity shares fully paid; and *(ii)* the issue of bonus shares to the equity shareholders in the ratio of one share for every four shares held by them.

You are required to pass necessary journal entries.

Solution:

			Rs.	**Rs.**
(i)	Bank account	Dr.	7,50,000	
	To 7 ½ % Cumulative preference share capital account			6,00,000
	To Share premium account			1,50,000
	(Issue of 6,000 shares of Rs. 100 each at a premium of Rs.25 per share)			
(ii)	Redeemable preference share capital account	Dr.	12,00,000	
	Premium on redemption of shares account	Dr.	1,20,000	
	To Redeemable preference shareholders' account			13,20,000
	(Redemption of 12,000 redeemable preference shares of Rs. 100 each at a premium of Rs, 10 per share)			
(iii)	Redeemable preference shareholders' account	Dr.	13,20,000	
	To Bank account			13,20,000
	(Payment to redeemable preference shareholders)			
(iv)	Share premium account	Dr.	1,20,000	
	To Premium on redemption of shares account			1,20,000
	(Transfer of premium on redemption of shares a/c to share premium a/c.)			

(v)	General reserve account	Dr.	6,00,000	
	To Capital redemption reserve account			6,00,000
	(Transfer of the divisible profits used for the redemption of preference shares to capital redemption reserve account)			
(vi)	Equity share final call account	Dr.	8,00,000	
	To Equity share capital account			8,00,000
	(Final call at Rs. 20 per share due on 40,000 equity shares)			
(vii)	Capital reserve account	Dr.	1,70,000	
	General reserve account	Dr.	6,30,000	
	To Equity share final call account			8,00,000
	(Capitalisation of reserves by making the partly called equity shares fully paid shares)			
(vii)	Capital redemption reserve account	Dr.	6,00,000	
	General reserve account	Dr.	4,00,000	
	To Bonus to shareholders account			10,00,000
	(Declaration of fully paid bonus shares of Rs. 100 each to equity shareholders in the ratio of one bonus share for every four shares)			
(ix)	Bonus to shareholders account	Dr.	10,00,000	
	To Equity share capital account			10,00,000
	(Issue of equity share in payment of bonus to shareholders)			

NOTES

(i) Redemption of redeemable preference shares is financed by the proceeds of fresh issue to the extent of Rs. 6,00,000, therefore, the remaining amount Rs. 6,00,000 (Rs. 12,00,000 – Rs. 6,00,000) has been transferred to capital redemption reserve account.

(ii) Capitalisation of profits by making the partly paid shares fully paid is not allowed out of capital redemption reserve account. Therefore, this has been done out of capital reserve and general reserve.

(iii) Capital redemption reserve account can be used only for issuing fully paid bonus shares. It has there for, been used for this purpose.

Illustration 2.

Footfault Ltd. had equity capital of Rs. 2,00,000 divided into shares of Rs. 100 each. 11 % cumulative redeemable preference shares of Rs. 100 each for Rs. 100,000 and Rs. 50,000 and Rs. 40,000 respectively to the credit of Profit and Loss Account and General Reserves as on 31st March 1990. It has also Rs. 8,000 to the credit of Share Premium Account.

As per the agreement with the preference shareholders, the Directors decided to redeem the shares on 1-4-1990 at a premium of 10%. It was also decided to sell certain investments whose book and market values on 31-3-90 were Rs. 40,000 and Rs. 50,000 respectively to enable redemption.

For purposes of redemption, the Board decided to utilize free reserves to the minimum extent possible. It was decided to issue right equity shares at a premium of 20% to finance redemption.

After redemption, the Board decided to issue bonus shares to equity holders in the ratio of 2 for 5.

Holders of 100 preference shares were not traceable.
Show the necessary general entries to record the above transactions in the books of Footfault Ltd. and also how the items will appear on the Balance Sheet of the Company.

Solution:

In The books of Footfaull Ltd.

JOURNAL ENTRIES

	L.F.	Dr. Rs.	Cr. Rs.
Bank A/c	Dr.	50,000	
To Investment A/c			40,000
To Profit and Loss A/c			10,000
(Sale of investments at a profit of Rs. 10,000)			
Bank A/c	Dr.	60,000	
To Equity Share Capital A/c			50,000
To Share Premium A/c			10,000
(Issue of 500 right shares @ 20% premium)			
10% Redeemable Preference Share Capital A/c	Dr.	1,00,000	
Premium on Redemption of Preference Shares A/c	Dr.	10,000	
To Preference Shareholders A/c			1,10,000
(Transfer of Preference share capital & premium on redemption to Shareholders A/c)			
Preference Shareholders A/c	Dr.	99,000	
To Bank A/c			99,000
(Payment made to Preference Shareholders)			
Capital Reserve A/c	Dr.	40,000	
Profit and Loss A/c	Dr.	10,000	
To Capital Redemption Reserve A/c			50,000
(Transfer of accumulated profits to Capital			

Redemption reserve)			
Capital Redemption Reserve A/c	Dr.	50,000	
Profit and Loss A/c	Dr.	50,000	
To Equity Share Capital			1,00,000
(Issue of 2 bonus shares for every 5 shares held)			
Share premium A/c	Dr.	10,000	
To Premium on redemption of Preference Share A/c			10,000
(Transfer of premium on redemption of Preference Shares to share Premium A/c)			

Footfault Ltd.

BALANCE SHEET as at ....

(After the redemption of 11% preference Shares)

Liabilities	Rs.	Assets	Rs.
Share capital:		Fixed Assets	
Issued and paid up Capital:		Investments	
Issued Shares 3,500 shares		Current assets	
of Rs. 100 each fully paid	3,50,000	Loans and Advances	
Reserve and Surplus		Cash on hand	11,000
Shares premium	8,000	Miscellaneous expenses	
Secured Loans			
Unsecured Loans			
Contingent liabilities and			
Unpaid pref holders	11,000		

Illustration 3.

The 3,000 6% Redeemable Preference Shares of Rs. 100 each fully paid of *A* Ltd. were due for redemption on 30.6.1988 at a premium of 5%. The company mad~ an issue of 2,000 Equity Shares of Rs. 100 each at a premium of 20% on the above mentioned date. The issue was immediately subscribed and paid for. Expense of issue of the shares came to Rs. 10,000. The General Reserve and the Profit and Loss Account had balance of Rs. 3,50,000 and Rs. 60,000 respectively on 30.6.1988. The redemption was carried out, holders of 500 shares not being traceable. A bonus issue of Rs. 3,00,000 in the form of fully paid equity shares was made.

Show the Journal entries recording the issue of shares and the redemption mentioned above, assuming that Revenue Reserve or Surplus is to be used to the minimum extent possible.

Solution:

In the books of A Ltd.
JOURNAL ENTRIES

Date	Particulars	L.F.	Dr. Rs.	Cr. Rs.
30.6.88	Bank A/c	Dr.	2,40,000	
	To Equity Share Capital A/c			2,00,000
	To Share Premium A/c			40.000
	(2,000 Equity Shares of Rs. 100 each issued at a premium of 20% for the purpose of redeeming Preference Shares)			
	Share issue expenses A/c	Dr.	10,000	
	To Bank A/c			10,000
	(Expenses of the issue of Shares paid)			
	6% Redeemable Preference Share Capital A/c	Dr.	3.00,000	
	Premium on Redemption of Preference Shares A/c	Dr.	15,000	
	To Redeemable Preference Shareholders A/c			3,15,000
	(Amount due to the Redeemable Preference Shareholders on redemption in respect of Capital and Premium)			
	Redeemable Preference Shareholders A/c	Dr.	2,62,500	
	To Bank A/c			2,62,500
	(Amount due to the Redeemable Preference Shareholders on redemption paid except 500 Shares whose holders were not traceable)			
	Share Premium A/c	Dr.	25,000	
	To Premium on redemption of Preference Shares A/c			15,000
	To Share issue Expenses			10,000
	(Providing premium payable to Preference shareholders on redemption @ 5% on Rs. 3,00,000 and writing off Share issue expenses out of Share Premium)			
	General Reserve A/c	Dr.	1,00,000	
	To Capital Redemption Reserve A/c			1.00,000
	(Creation of Capital Redemption Reserve A/c out of General Reserve **[Rs. 3,00,000 - Rs. 2,00,000] as required u/s 80)**			

"	Capital Redemption Reserve A/c	Dr.	1.00,000	
	Share Premium A/c	Dr.	15,000	
	General Reserve A/c	Dr.	1,85,000	
	To Bonus Dividend A/c			3.00,000
	(The amount of Bonus Shares to be issued)			
"	Bonus Dividend A/c	Dr.	3,00,000	
	To Equity Share Capital A/c			3,00,000
	(Fully paid Bonus Shares of Rs. 3,00.000 issued)			

Illustration 4.

The following figures appeared in the Balance Sheet of Pure Product Ltd. as on 31st March, 1991 and 31st March, 1992:

	31st Mar. 1991 Rs.	31st Mar. 1992 Rs.
Equity Share Capital (Rs. 10 each)	2,90,000	3,35,000
Less: Calls in arrear	3,000	1,000
	2,87,000	3,34,000
Add Forfeited Share A/c	8,000	4,000
	2,95,000	3,38,000
6% Preference Share Capital (Rs. 100 per share)	1,00,000	50,000
Capital Reserve	7,000	17,500
Share Premium Account	12,000	2,000
General Reserve	1,20,000	80,000
Capital Redemption Reserve	-	60,000

Additional Information

(i) During 1991-92 4,000 new Equity Shares of Rs. 10 each and 500 6% Preference Shares of Rs. 100 each both were issued at par and in either case there were no calls in arrears, Preference Shares are all redeemable at a premium of 10%.

(ii) Calls in arrears represent Final call money @ Rs. 2 per share.

(iii) Re-issue of forfeited shares, if made, was @ Rs. 9 per share.

(iv) Capital Reserve Account balance on 31.3.91 and 31.3.92 indicates only profits arising out of re-issue of forfeited shares.

You are required to set out the journal entries for transactions which took place during

1991-92 affecting the items as appearing in the Balance Sheet.

Pure Products Ltd.

JOURNAL EN1RIES

Date		L.F.	Dr. Rs.	Cr. Rs.
1.	Bank A/c	Dr.	90,000	
	To Equity Share Capital			40,000
	To 6% Pref. Share Capital			50,000
2.	Equity Share Capital A/c	Dr.	10,000	
	To Calls in arrear			2,000
	To Forfeited Shares A/c			8,000
3.	Bank A/c	Dr.	13,500	
	Forfeited Shares A/c	Dr.	1,500	
	To Equity Share Capital			15,000
4.	Forfeited Shares A/c	Dr.	10,500	
	To Capital Reserve			10,500
5.	6% Preference Share Capital A/c	Dr.	1,00,000	
	Premium on Redemption A/c	Dr.	10,000	
	To Preference Shareholders A/c			1,10,000
6.	Preference Shareholders A/c	Dr.	1,10,000	
	To Bank A/c			1,10,000
7.	Share Premium A/c	Dr.	10,000	
	To Premium on Redemption A/c			10,000
8.	General Reserve A/c	Dr.	60,000	
	To Capital Redemption Reserve A/c			60,000
9.	Profit and Loss Appropriation A/c	Dr.	20,000	
	To General Reserve			20,000

Working Notes:

(1) General Reserve after providing Rs. 60,000 for redemption of Preference shares should have been Rs. 60,000. Since it stands at Rs. 80,000 it is presumed that Rs. 20,000 is transferred from profit and loss appropriation account.

(2) Reduction in calls in arrears is an indication that shares have been forfeited, as there is also an increase in the capital reserve. Reduction in arrears by Rs. 2,000 indicates that 100 shares have been forfeited, since call money is Rs. 2 per share.

(3) Since there is an increase in Capital reserve, it indicates that forfeited shares have been reissued. Profit on re-issue for shares is Rs. 9 + Rs. 8 - Rs. 10 *i.e.,* Rs. 7 per share. Therefore 1500 shares have been reissued.

CHAPTER - 9

Acquisition of Business and Profit or Loss Prior to Incorporation

Illustration 1

Chaitanya Industries Private Ltd. was incorporated on 1.2.2007. It took over the proprietary business of Chaitanya, with effect from 1.1.2007. The Balance Sheet of Chaitanya as at 31st December 2006 is as follows:

Liabilities	Rs.	Assets	Rs.
Capital	4,31,500	Sundry Debtors	25,700
Trade creditors	17,000	Building	1,10,000
Loans	8,500	Machinery	3,00,000
Creditors expenses	2,500	Loss	23,800
	4,59,500		4,59,500

It was agreed to pay Rs. 4,50,000 in equity shares to Chaitanya. The company decided to close its first year's accounts as at 31st December 2007. The following are the further details furnished to you:

Sales Rs. 3,00,000; Purchases Rs. 1,40,000; Salaries and Wages Rs. 40,000; General expenses Rs. 32000; Freight Rs. 4,700; Interest paid Rs. 8,000; Stock-in-trade Rs. 22,000; Addition to building Rs. 38,000; Depreciation may be provided at 10% on assets including additions.

The company has requested you to prepare:

(1) The journal entries for the take-over;

(2) Chaitanya's Account, and

(3) Profit and Loss Account showing separately pre-separately pre-incorporation and post-incorporation profits for the year ending 31st December 2007.

Solution :

In the Books of Chaitanya Industries (Pvt.) Ltd.

Journal

Date	Particulars		Dr. Rs.	Cr. Rs.
2007	Goodwill A/c. (Balancing figure)	Dr.	42,300	
Jan. 1	Building A/c.	Dr.	1,10,000	
	Machinery A/c.	Dr.	3,00,000	
	Sundry Debtors A/c.	Dr.	25,700	
	To Loan A/c.			8,500
	To Trade Creditors A/c.			17,000
	To Creditors for Expenses A/c.			2,500
	To M/s. Chaitanya (Vendors) A/c.			4,50,000
(Being sundry assets and liabilities of M/s. Chaitanya taken over as per agreement dated…)				

M/s. Chaitanya (Vendors) A/c.	Dr.	4,50,000	
To Equity Shares Capital A/c.			4,50,000
(Being the issue of shares for satisfying purchase consideration)			

M/s. Chaitanya Account

Dr. Particulars	Rs.	Particulars	**Cr.** Rs.
To Share Capital	4,50,000	By Sundries (net assets taken over)	4,50,000
	4,50,000		4,50,000

Chaitanya Industries (Pvt.) Ltd.
Trading Account for the year ended 31st December, 2007

Dr. Particulars	Rs.	Particulars	**Cr.** Rs.
To Purchase	1,40,000	By Sales	3,00,000
To Freight	4,700	By Closing Stock	22,000
To Gross profit	1,77,300		
	3,22,000		3,22,000

Profit and Loss Account for 15 months ended 31st December, 2007

Dr. Particulars	Notes	Total Rs.	Pre-incorporation 1.1.2007 to 31.1.2007	Post-incorportation 1.2.2007 to 31.12.2007	Particulars	Notes	Total Rs.	Pre-incorporation 1.1.2007 to 31.1.2007	**Cr.** Postincoporation 1.2.2007 to 31.12.2007
To Salaries & Wages		40,000	3,333	36,667	By Gross profit	1	1,77,300	14,775	1,62,525
To General expenses		32,000	2,667	29,333					
To Interest paid		8,000	667	7,333					
To Depreciation:									
On building	2	14,800	1,233	13,567					
On machinery		30,000	2,500	27,500					
To Net profit --		52,500	--	--					
Transferred to:									
-- Capital Reserve		--	4,375	--					
-- P/L Appropriation		--	--	48,125					
		1,77,300	14,775	1,62,525			1,77,300	14,775	1,62,525

Working Note :

(1) For lack of information, gross profit and all expenses have been apportioned on the basis of time, i.e., 1:11.

(2) Depreciation on Building : 10% (Rs. 1,10,000 + Rs. 38,000) = Rs. 14,800.

Illustration 2

Bidyut Limited was incorporated on 1st July, 2007 to acquire from Bijli as and from 1st January, the individual business carried on by him. The purchase price of the fixed assets and goodwill was agreed to be the sum equal to 80% of the profits made each year on ascertainment of the sum due.

The following Trial Balance as on 31st Dec., 2007 is presented to you to enable you to prepare a Balance Sheet as at that date. Also prepare a statement of appropriation of profit writing off one-third of the preliminary expenses.

	Dr. Rs.	Cr. Rs.
Share Capital - 1,500 equity shares of Rs. 100 each, Rs. 80 paid up		1,20,000
Sundry Debtors	82,000	
Stock on 31st Dec., 2007	67,000	
Cash at bank and on hand	24,000	
Directors. Fee	3,000	
Preliminary expenses	24,000	
Sundry Creditors	32,000	
Net Profit for the year after providing for all expenses under agreement entered into with Bijli		48,000
	2,00,000	2,00,000

Solution

Balance Sheet of M/s Bidyut Ltd. as on 31st Dec., 2007

Liabilities	Rs.	Assets	Rs.
Share Capital		Fixed Assets	
Issued & Subscribed		Goodwill & Fixed Assets	38,400*
Capital 1,500 Equity		Investments	Nil
Shares of Rs. 100 each,		Current Assets	
Rs. 80 paid up	1,20,000	Stock	67,000
Reserves & Surplus		Debtors	82,000
Capital Reserve	24,000	Bank	24,000
(Pre-incorporation profit)		Misc. Expenses &	
Profit & Loss A/c	13,000	Losses not written off	
Secured Loans	Nil	Preliminary expenses	16,000
Unsecured Loans	Nil		
Current Liabilities & Provisions			
Trade Creditors	32,000		
Due to Bijli	38,400		
	2,27,400		2,27,400

Statement of Appropriation of Profit

	Rs.	Pre-incorporation Rs.	Post-incorporation Rs.
Net Profit for the Year		24,000	24,000
Less: Directors. fee	3,000		
Preliminary Exps.	8,000		11,000
		24,000	13,000
Amount Payable to Bijli:			
Profit for the year			48,000
80% due as cost of goodwill, assets, etc.		38,400	

Illustration 3

Inder and Vishnu, working in partnership registered a joint stock company under the name of Fellow Travellers Ltd. on May 31, 2005 to take over their existing business. It was agreed that they would take over the assets of the partnership for a sum of Rs. 3,00,000 as from January 1st, 2007 and that until the amount was discharged they would pay interest on the amount at the rate of 6% per annum. The amount was paid on June 30, 2007. To discharge the purchase consideration, the company issued 20,000 equity shares of Rs. 10 each at a premium of Re. 1 each and allotted 7% Debentures of the face value of Rs. 1,50,000 to the vendors at par.

The Profit and Loss Account of the .Fellow Travellers Ltd.. for the year ended 31st December, 2007 was as follows :

	Rs.		Rs.
Purchase, including stock	1,40,000	Sales:	
Freight and carriage	5,000	1st January to 31st May 2005	60,000
Gross Profit c/d	60,000	1st June to 31st Dec., 2005	1,20,000
		Stock in hand	25,000
	2,05,000		2,05,000
Salaries and Wages	10,000	Gross profit b/d	60,000
Debenture Interest	5,250		
Depreciation	1,000		
Interest on Purchase Consideration (up to 30-6-2007)	9,000		
Selling Commission	9,000		
Directors. Fees	600		
Preliminary Expenses	900		
Provision for taxes	6,000		
Dividend on equity shares @ 5%	5,000		
Balance c/d	13,250		-
	60,000		60,000

Prepare statement apportioning the balance between the .post. and .pre-incorporation. Periods and also show how these figures would appear in the Balance Sheet of the company.

Solution:

Fellow Travellers Ltd.

Statement showing apportionment of profit between periods prior to and since incorporation

		Ratio	Pre-incorporation	Post-incorporation
Gross profit allocated on the basis of sale		1:2	20,000	40,000
Administrative Expenses allocated				
On time basis:				
(i) Salaries and wages	10,000			
(ii) Depreciation	1,000	5:7	4,583	6,417
Selling Commission on the basis of sales		1:2	3,000	6,000
Interest on Purchase Consideration				
(Time basis)		5:1	7,500	1,500
Expenses applicable wholly to the				
Post-incorporation period:				
Debenture Interest	5,250			
Director's Fees	600			
Appropriations:				5,850
Preliminary Expenses w/o	900			
Provision for Tax	6,000			
Dividend on equity share	5,000			11,900
Balance c/d to Balance Sheet			4,917	8,333
			20,000	40,000

Fellow Travellers Ltd.

Extract From the Balance Sheet as on 31st Dec., 2007

Share Capital: Rs.	
20,000 equity shares of Rs. 10 each fully paid	2,00,000
Reserve and Surplus:	
Profit Prior to Incorporation	4,917
Securities Premium Account	20,000
Profit and Loss Account	8,333
7% Debentures	1,50,000
Provision for Taxes	6,000
Total	3,89,250

Illustration 4

P Ltd. was incorporated on 1.4.99 with an authorised capital of Rs. 5,00,000 divided into equity shares of Rs. 10 each. It tookover the business of P on the basis of following valuation:

	Rs.
Goodwill	20,000
Plant	80,000
Stock	15,000
Debtors	30,000
Cash	5,000
Creditors	8,000

(a) Purchase consideration was satisfied by issue of equity shares of Rs. 10 at par.
(b) Preliminary expenses paid by the company Rs. 8,000.
(c) 20,000 shares were issued to Public at Rs. 12 each. The shares were fully subscribed and paid up. In addition to the above, the following further balances arise in the books as on 31.3.2000:

	Rs.		Rs.
Purchases	3,00,000	Branch Suspense (Cr.)	14,000
Sales	5,20,000	Bank	1,30,000
Salaries	60,000	Ramprakash (Suspense) (Dr.)	30,000
Other Expenses	20,000	Gulati (Suspense) (Cr.)	25,000
Debtors	92,000	Closing stock	20,000
Building	1,75,000	Creditors	18,000

The following information is also to be considered :

(1) Ramprakash Suspense A/c represents Rs. 30,000 paid to him for a joint venture business. In addition to the above, Ramprakash spent personally Rs. 20,000 for purchase of goods and Rs. 2,500 for expenses. Sales made by him were Rs. 70,000 and the balance stock\ was taken over by him at an agreed valuation of Rs. 2,500. Ramprakash is to get 2/5 of the profit.

(2) Gulati's Suspense represents advance made by him against a consignment of 10 TV sets, costing Rs. 10,000 each to be priced 35% over cost. Gulati is to get 15% commission on sales. Gulati has incurred Rs. 5,000 as transportation charges and has sold 8 TV sets. No entry was passed on sending the goods.

(3) Sales include the following :
   (a) Goods sold on "Sale or Return" basis—Cost Rs. 30,000 on which 25% profit was charged. The goods have not yet been accepted by the customer.
   (b) Hire-purchase sales Rs. 50,000; prices being determined by adding 33 on cost price. 30% of instalments have not yet fallen due.
   (c) Goods sent to branch Rs. 30,000 (Invoice Price) at 25% profit on Cost price. Remittance received from branch has been credited to Branch Suspense Account. Branch returns disclose that branch had Rs. 10,000 closing stock (invoice price), Rs. 500 in cash and Rs. 7,500 in debtors.

(4) Bank balance given above is not in agreement with the balance as per bank statement. Cheques deposited Rs. 10,000 and cheques issued for Rs. 8,000 have not been recorded in the bank statement; Rs. 15,000 cheque dishonoured by a party and bank charges of Rs. 700 have not yet been entered in cash-book.

(5) Provide 5% depreciation on building, 40% for taxation and 15% dividend. Transfer Rs. 20,000 to General Reserve.

(6) All purchases and sales transactions were on credit.

Prepare Balance Sheet as at 31st March, 2000 and Profit & Loss Account for the year ended 31st March, 2000.

Solution :

Profit and Loss Account of P Ltd.
for the year ended as at 31st March, 2000

		Rs.				Rs.
To	Stock (taken over)	15,000	By	Sales		4,37,500
To	Purchases	3,00,000	By	Goods sent to branch		24,000
To	Gross profit c/d	3,34,000	By	Goods sent on hire purchase		37,500
			By	Goods sent on consignment		1,00,000
			By	Closing stock	20,000	
				Add : Goods sent on sale or return basis	30,000	50,000
		6,49,000				6,49,000
To	Salaries	60,000	By	Gross profit b/d		3,34,000
To	Expenses	20,000	By	Profit on:		
To	Bank charges	700		Joint venture		12,000
To	Depreciation on building			Hire purchase		8,750
	(5% on Rs. 1,75,000)	8,750		Consignment		7,800
To	Provision for taxation	1,11,640		Branch		6,000
	(40% of Rs. 2,79,100)					
To	Net profit c/d	1,67,460				
		3,68,550				3,68,550
To	Proposed dividend	51,300	By	Net profit b/d		1,67,460
To	General Reserve	20,000				
To	Net profit c/d	96,160				
		1,67,460				1,67,460

Balance Sheet of P Ltd.
as at 31st March, 2000

	Rs.			Rs.
Share capital		Fixed Assets		
Authorised		Goodwill		20,000
50,000 Equity shares of		Building	1,75,000	
Rs. 10 each, fully paid up	5,00,000	Less: Depreciation	8,750	1,66,250
Issued & subscribed:		Plant		80,000
34,200 Equity shares of		Current assets loans and advances		
Rs. 10 each, fully paid up	3,42,000	Current assets :		
(Out of these shares, 14,200		Closing stock		
shares have been allotted as		Stock in hand	20,000	
fully paid up for consideration		Goods sent on		
other than cash)		approval basis	30,000	
Reserves and surplus:		Hire purchase stock	11,250	
Securities premium	40,000	Consignment stock	21,000	
General reserve	20,000	Branch stock	8,000	90,250
Profit and loss account	96,160	Sundry debtors	24,500	
Current liabilities and Provisions		Add : Branch debtors	7,500	32,000
Current liabilities :		Bank		1,14,300
Sundry creditors	18,000	Cash in hand	64,000	
Provisions :		Cash at branch	500	64,500
Provision for taxation	1,11,640	Gulati's account		61,800
Proposed dividend	51,300	Ramprakash's account		42,000
		Miscellaneous expenditure		
		Preliminary expenses		8,000
	6,79,100			6,79,100

Working Notes :

(1) **Sales Account**

	Rs.		Rs.
To Sundry Debtors A/c-		By Balance b/d (given)	5,20,000
Goods sold on sale or return basis $[30{,}000\times\frac{125}{100}]$	37,500		
To Sundry Debtors A/c			
Hire purchase sales	15,000		
To Sundry Debtors A/c-			
Goods sent to branch,	30,000		
To Profit & Loss A/c	4,37,500		
	5,20,000		5,20,000

(2) **Memorandum Debtors Account**

	Rs.		Rs.
To P (Debtors taken over)	30,000	By Cash	4,78,000
To Sales	4,37,500	By Balance c/d	24,500
To Hire purchase sales	35,000		
	5,02,500		5,02,500

(3) **Sundry Debtors Account**

	Rs.		Rs.
To Balance b/d	92,000	By Sales A/c (Goods sold on sale or return basis)	37,500
To Bank A/c (cheque dishonoured)	15,000	By Sales A/c-	
		H.P. Sales	15,000
		Goods sent to branch	30,000
		By Balance c/d	24,500
	1,07,000		1,07,000

(4) **Branch Account**

	Rs.		Rs.
To Goods sent to Branch A/c	24,000	By Branch Suspense A/c	14,000
To Profit & Loss A/c	6,000	By Balance c/d-	
		Stock $\left[10{,}000\times\frac{100}{125}\right]$	8,000
		Cash	500
		Debtors	7,500
	30,000		30,000

(5) **H.P. Trading Account**

	Rs.		Rs.
To Goods sent on H.P. $\left[50{,}000\times\frac{3}{4}\right]$	37, 500	By H.P. Sales	35,000
		By H.P. Stock	11,250
To Profit on H.P. $\left[35{,}000\times\frac{1}{4}\right]$	8,750		
	46,250		46,250

(6) **Memorandum Joint Venture Account**

	Rs.		Rs.
To Ram Prakash Suspense A/c	30,000	By Ram Prakash A/c-	
To Ram Prakash A/c (Purchases)	20,000	Sales	70,000
To Ram Prakash A/c (Expenses)	2,500	Stock taken over	2,500
To Share of Profits-			
P & L A/c (3/5)	12,000		
Ram Prakash (2/5)	8,000		
	72,500		72,500

(7) **Ram Prakash's Account**

	Rs.		Rs.
To Mem. Joint Venture A/c-		By Mem. Joint Venture A/c-	
Sales	70,000	Purchases	20,000
Stock taken over	2,500	Expenses	2,500
		Profits share	8,000
		By Balance c/d	42,000
	72,500		72,500

(8) **Consignment Account**

	Rs.		Rs.
To Goods sent on consignment A/c (10 × 10,000)	1,00,000	By Gulati A/c (Sales)	1,08,000
To Gulati A/c (Expenses)	5,000	By Consignment Stock (2 × 10,000) = 20,000	
To Gulati A/c (Commission) (1,08,000 × 15%)	16,200	Add : Expenses [5,000 ×20%] = 1,000	21,000
To Profit & Loss A/c	7,800		
	1,29,000		1,29,000

(9) **Gulati's Account**

	Rs.		Rs.
To Consignment A/c	1,08,000	By Gulati Suspense A/c	25,000
		By Consignment A/c-	
		Expenses	5,000
		Commission	16,200
		By Balance c/d	61,800
	1,08,000		1,08,000

(10) **Sundry Creditors Account**

	Rs.		Rs.
To Cash A/c	2,90,000	By P (Creditors taken over)	8,000
To Balance c/d	18,000	By Purchases A/c	3,00,000
	3,08,000		3,08,000

(11) **Cash and Bank Account**

	Rs.		Rs.
To P A/c (Cash taken over)	5,000	By Creditors A/c	2,90,000
To Memorandum Debtors A/c	4,78,000	By Salaries A/c	60,000
To Sundry Debtors A/c	15,000	By Other Expenses A/c	20,000
To Share Capital A/c	2,00,000	By Ram Prakash Suspense A/c	30,000
To Securities Premium A/c	40,000	By Building A/c	1,75,000
To Gulati Suspense A/c	25,000	By Preliminary Expenses A/c	8,000
To Branch Suspense A/c	14,000	By Balance c/d-	
		Bank (given)	1,30,000
		Cash (balance)	64,000
	7,77,000		7,77,000

(12) **Bank Account**

	Rs.		Rs.
To Balance b/d	1,30,000	By Bank ChargesA/c	700
		By Sundry Debtors A/c (Cheque dishonoured)	15,000
		By Balance c/d	1,14,300
	1,30,000		1,30,000

(13) **Calculation of purchase consideration**

	Rs.	Rs.
Assets taken over :		
Goodwill	20,000	
Plant	80,000	
Stock	15,000	
Debtors	30,000	
Cash	5,000	1,50,000
Less : Creditors		8,000
Net assets taken over		1,42,000

Purchase consideration will be discharged by issue of 14,200 equity shares of Rs. 10 each.

Notes :

1. The rate of depreciation for Plant has not been given in the question, therefore, no depreciation has been provided on Plant. Students may assume any suitable rate of depreciation and provide for accordingly.

2. The provision for corporate dividend tax has been ignored

Illustration 5

(a) The partners of Shri Enterprises decided to convert the partnership firm into a Private Limited Company Shreya (P) Ltd. with effect from 1st January, 2008. However, company could be incorporated only on 1st June, 2008. The business was continued on behalf of the company and he consideration of 6,00,000 was settled on that day along with interest @ 12% per annum. The company availed loan of 9,00,000 @ 10% per annum on 1st June, 2008 to pay purchase consideration and for working capital. The company closed its accounts for the first time on 31st March, 2009 and presents you the following summarized profit and loss account.

Sales		19,80,000
Cost of goods sold	11,88,000	
Discount to dealers	46,200	
Director's remuneration	60,000	
Salaries	90,000	
Rent	1,35,000	
Interest	7,05,000	
Depreciation	30,000	
Office expenses	1,05,000	
Sales promotion expenses	33,000	
Preliminary expenses (to be written off in first year itself)	15,000	18,07,200
Profit		1,72,800

Sales from June, 2008 to December, 2008 were 20 times of the average sales, which further increased to 3½ times in January to March quarter, 2009. The company recruited additional work force to expand the business. The salaries from July, 2008 doubled. The company also acquired additional showroom at monthly rent of 10,000 from July, 2008.

You are required to prepare a Profit and Loss Account showing apportionment of cost and revenue between pre-incorporation and post-incorporation periods. Also suggest how the pre-incorporation profits/losses are to be dealt with.

(10 Marks)

Solution :

Shreya (P) Limited
Profit and Loss Account
for 15 months ended 31st March, 2009

	Pre. inc. (5 months)	Post inc. (10 months)		Pre. inc. (5 months)	Post inc, (10 months)
To Cost of sales	1,80,000	10,08,000	By Sales (W,N,1)	3,00,000	16,80,000
To Gross profit	1,20,000	6,72,000			
	3,00,000	16,80,000		3,00,000	16,80,000
To Discount to dealers	7,000	39,200	By G,P,	1,20,000	6,72,000
To Director's remuneration	-	60,000	By Loss	750	
To Salaries (W.N. 2)	18,750	71,250			
To Rent (W.N. 3)	15,000	1,20,000			
To Interest (W.N. 4)	30,000	75,000			
To Depreciation	10,000	20,000			
To Office expenses	35,000	70,000			
To Preliminary expenses	-	15,000			
To Sales promotion expenses	5,000	28,000			
To Net profit	-	1,73,550			
	1 ,20,750	6,72,000		1,20,750	6,72,000

Treatment of pre-incorporation loss:

Pre-incorporation loss may, either be considered as a reduction from any capital reserve accruing in relation to the transaction or be treated as goodwill.

Working Notes:

1 **Calculation of sales ratio:**

Let the average sales per month in pre-incorporation period be x

Average Sales (Pre-incorporation) = x x 5 = 5x

Sales (Post incorporation) from June to December, 2008	= 2 ½ x x 7 =	17.5x
From January to March, 2009	= 3 ½ x x 3 =	10.5x
Total Sales		28.0x

Sales ratio of pre-incorporation & post incorporation is 5x : 28x

2. Calculation of ratio for salaries

Let the average salary be x
Pre-Incorporation salary = x x 5= 5x
Post incorporation salary

June, 2008 =	x
July to March, 2009 = x x 9 x 2 =	$18x$
	$19x$

Ratio is 5 : 19

3. Calculation of Rent

Total rent		1,35,000
Less: Additional rent for 9 months @ 10,000 p.m.		90,000
Rent of old premises apportioned in time ratio		45,000
Apportionment	Pre Inc.	Post Inc.
Old premises rent	15,000	30,000
Additional Rent	-	90,000
	15,000	1,20,000

4. Calculation of interest

Pre-incorporation period from January, 2008 to May, 2008	
$\left(\dfrac{6,00,000\times12\times5}{100\times12}\right)$	30,000
Post incorporation period from June, 2008 to March, 2009	
$\left(\dfrac{9,00,000\times10\times10}{100\times12}\right)$	75,000
	1,05,000

(b) Rama Udyog Limited was incorporated on August 1, 2008. It had acquired a running business of Rama & Co. with effect from April 1, 2008. During the year 2008-09, the total sales were Rs.36,00,000. The sales per month in the first half year were half of what they were in the later half year. The net profit of the company, Rs.2,00,000 was worked out after charging the following expenses:

(i) Depreciation Rs.1,08,000, (ii) Audit fees Rs.15,000, (iii) Directors' fees Rs.50,000, (iv) Preliminary expenses Rs.12,000, (v) Office expenses Rs.78,000, (vi) Selling expenses Rs.72,000 and (vii) Interest to vendors upto August 31, 2008 Rs.5,000.

Please ascertain pre-incorporation and post-incorporation profit for the year ended 31st March, 2009. (10 + 6 = 16 Marks)

(b) Statement showing pre and post incorporation profit for the year ended 31st March, 2009

Particulars	Total Amount Rs.	Basis of Allocation	Pre-incur-poration Rs,	Post-Incor-poration Rs.
Gross Profit	5,40,000	2:7	1,20,000	4,20,000
Less: Depreciation	1,08,000	1:2	36,000	72,000
Audit Fees	15,000	1:2	5,000	10,000
Director's Fees	50,000	Post	-	50,000
Preliminary Expenses	12,000	Post	-	12,000
Office Expenses	78,000	1:2	26,000	52,000
Selling Expenses	72,000	2:7	16,000	56,000
Interest to vendors	5,000	Actual	4,000	1,000
Net Profit (Rs.33,000 being pre-incorporation profit is transferred to capital reserve Account)	2,00,000		33,000	1,67,000

Working Notes:

1. **Sales ratio**

   The sales per month in the first half year were half of what they were in the later half year. If in the later half year, sales per month is Re.1 then it should be 50 paise per month in the first half year. So sales for the first four months (i.e. from 1st April, 2008 to 31st July, 2008) will be 4 x 0.50 = Rs.2 and for the last eight months (i.e. from 1st August, 2008 to 31st March, 2009) will be (2 × .50 + 6 × 1) = Rs.7. Thus sales ratio is 2:7.

2. **Time ratio**

   1st April, 2008 to 31st July, 2008 : 1st August, 2008 to 31st March, 2009
   = 4 months : 8 months = 1:2
   Thus, time ratio is 1:2.

3. **Gross profit**

   Gross profit = Net profit + All expenses
   = Rs.2,00,000 + Rs.(1,08,000+15,000+50,000+12,000+78,000+72,000+5,000)
   = Rs.2,00,000 +Rs.3,40,000 = Rs.5,40,000.

CHAPTER - 10

Cash Flow Statement

Illustration 1

Given below are the condensed balance sheets of Lambakadi Ltd. for two years and he statement of Profit & Loss Account for one year:

		(Figures in lakhs)
As at 31st March	**1998**	**1997**
Share capital		
In equity shares of Rs.100 each	150	110
10% redeemable pref. shares of Rs.100	10	40
Capital redemption reserve	10	-
General reserve	15	10
Profit & Loss account	30	20
8% convertible debentures	20	40
Other term loans	15	30
	250	250
Fixed assets less depreciation	130	100
Long term investments	40	50
Working capital	80	100
	250	250
Statement of Profit and Loss for the year ended 31st March, 1998		
Sales		600
Less: Cost of sales		400
	200	
Establishment charges	30	
Selling and distribution expenses	60	
Interest expenses	5	
Loss on sale of equipment (B.V.Rs.40)	15	110
	90	
Interest income	4	
Dividend income	2	
Foreign exchange gain	10	
Damage received for loss of reputation	14	30
	120	
Depreciation		50
	70	
Taxes	30	
	40	
Dividends paid		15
Net profit carried to balance sheet		25

You are informed by the accountant that the ledgers relating to debtors, creditors and stock for both the years were seized by the Income Tax authorities and it would take at least two months to obtain copies of the same. However he is able to furnish the following data:

	1998	1997
Dividend receivable	2	4
Interest receivable	3	2
Cash on hand and with bank	7	10
Invest. maturing within two months	3	2
	15	18
Interest payable	4	5
Taxes payable	6	3
	10	8
Current ratio	1.5	1.4
Acid test ratio	1.1	0.8

It is also gathered that debenture holders owning 50% of the debentures outstanding as on 31.3.97 exercised the option for conversion into equity shares during the financial year and the same was put through. Prepare a cash flow statement by direct as well as indirect method. Treat foreign exchange gain as realised gain.

Solution:

Working for Stock, Drs. & Crs. :	1997	1998
Current Ratio	1.4	1.5
Quick Ratio	0.8	1.1
Working Capital	100	80
If CL	X	X
CA	1.4X	1.5X
W. Cap = CA – CL	1.4X – X	1.5X – X
	= 0.4X	= 0.5X
Now 0.4X = 100	0.5X = 80	
	X = 250	X = 160
CL	250	160
Crs	250 – 8	160 – 10
	= 242	= 150
As O/D & C/C is not there		
Current liability = Quick liability. So Quick Liabilities =	250	160
Quick Ratio	QA/QL = 0.8	1.1
	QA = 0.8 x 250	QA = 1.1 x 160
	= 200	= 176
CA	1.4 x 250	1.5 x 160
	= 350	= 240
Stock = CA – QA	= 150	64
Drs.	350 – 18 – 150	240 – 15 – 64
	= 182	= 161

Note: Foreign exchange fluctuation is treated as realized gain. It is an operating item. Hence not to be deducted from the operating profit.

Cash Flow Statement

A. Cash from Op. Activities :		
1. Net profit before tax & extraordinary items. (70 – 14)	56	
Adjustment For :		
Depreciation	50	
Loss on sale of asset	15	
Dividend income	(2)	
Interest income	(4)	
Interest expense	5	
2. Operating profit before w.cap charges:	120	
Adjustment for :		
Decrease in stock	86	
Decrease in Drs.	21	
Decrease in Crs.	(92)	
3. Cash from operation	135	
Taxes paid	(27)	
4. Cash from operation before extraordinary items	108	
Damages received. For loss of rep.	14	
Cash from operating activities		122
B) Cash from interesting Activities :		
Sale of fixed asset	25	
Purchase of fixed asset	(120)	
Sale of investment	10	
Dividend received	4	
Interest received	3	
Cash from investment activities		(78)
C) Cash from financing activities :		
Interest paid	(6)	
Issue of share	20	
Redemption of Preference Share.	(30)	
Repayment of loan	(15)	
Dividend paid	(15)	(46)
		(2)
Net decrease in cash & cash equivalent during the year.		
Opening cash & cash equivalent		12
Closing cash & cash equivalent		10

DIRECT METHOD :

Cost of sales = 400
Op. stock = 150
cl. stock = 64
op. st - purchases – cl. St = cost of sales
purchases = 400 +64 – 150 = 314 (This we need to calculate payment to creditors).

A) Cash from operating activities :

Collection from Debtors. (182 + 600 – 161)	621
Payment to Creditors (242 + 314 – 150)	(406)
Payment of establishment expenses.	(30)
Payment of selling and distribution exp.	(60)
Foreign exchange gain realized	10
	135

* Rest is same as indirect method.

Note: If Foreign exchange fluctuation is treated as unrealized gain. We have to decut It from the operating profit. And then in working capital calculation, we have to decrease the closing debtors on the assumption that it has arisen from debtors.

Illustration 2

From the following summary Cash Account of X Ltd. prepare Cash Flow Statement for the year ended 31st March, 2008 in accordance with AS 3 (Revised) using the direct method. The company does not have any cash equivalents.

Summary Cash Account for the year ended 31.03.2008

	Rs.'000		Rs.'000
Balance as on 1.4.2007	50	Payment to Suppliers	2,000
Issue of Equity shares	300	Purchase of Fixed Assets	200
Receipts from customers	2,800	Overhead expense	200
Sale of fixed assets	100	Wages and salaries	100
		Taxation	250
		Dividend	50
		Repayment of bank loan	300
		Balance on 31.03.2008	150
	3,250		3,250

Solution:

X Ltd.
Cash flow statement for the year ended 31st March, 2008
(Using the direct method)

	Rs.'000	Rs.'000
Cash flow from operating activities		
Cash receipts from customers	2,800	
Cash payments to suppliers	(2,000)	
Cash paid to employees	(100)	
Cash payments for overheads	(200)	
Cash generated from operations	500	
Income tax paid	(250)	
Net cash from operating activities		250
Cash flows from investing activities		
Payments for purchase of fixed assets	(200)	
Proceeds from sale of fixed assets	100	
Net cash used in investing activities		(100)
Cash flows from financing activities		
Proceeds from issuance of equity shares	300	
Bank loan repaid	(300)	
Dividend paid	(50)	
Net cash used in financing activities		(50)
Net increase in cash		100
Cash at beginning of period		50
Cash at end of period		150

Illustration 3

The Balance Sheets of X Ltd. at 31st December, 2006 and 2007 are given below. (all figures in thousand rupees)

Liabilities	2006	2007	Assets	2006	2007
Equity Share Capital	2,000	2,000	Fixed Assets (Note 1)	6,400	8,500
Securities Premium	2,340	2,540	**Current Assets**		
Revaluation Reserve	--	1,000	Inventory	1,200	1,400
Accumulated Profits	2,400	2,960	Accounts Receivable	1,500	1,400
10% Debentures	1,000	1,500	Cash at Bank	200	300
Current Liabilities					
Trade Payable	800	700	Taxation	400	500
Bank Overdraft	360	200			
	9,300	11,600		9,300	11,600

Notes :

(1) **Movement of Fixed Assets** **(Rs.'000)**

Particulars	**Land**	**Buildings**	**Plant**	**Total**
Cost or Valuation on 1st January, 2007	2,000	3,000	3,400	8,400
Additions	--	--	2,500	2,500
Disposals	--	--	(1,000)	(1,000)
Revaluation	1,000	--	--	1,000
At 31st December, 2007	3,000	3,000	4,900	10,900
Accumulated Depreciation on 1st January, 2007	--	400	1,600	2,000
Depreciation for the year		60	1,140	1,200
Disposals	--	--	(800)	(800)
At 31st December, 2007	--	460	1,940	2,400
Net Book Value :				
At 31st December, 2007	3,000	2,540	2,960	8,500
At 31st December, 2006	2,000	2,600	1,800	6,400

(2) Rs. 5,00,000 of 10% debentures was issued on 1st January, 2007. Interest on all debentures is paid on 30th June and 31st December every year.

(3) The company paid a dividend of Rs. 5,00,00 during the year. The proposed dividends have not been recognized as liabilities in the Balance Sheets.

(4) Plant sold during the year realized Rs. 2,50,000.

(5) The tax charged for the year in the Profit and Loss Account was Rs. 5,00,000.

Required : Prepare a Cash Flow Statement of X Ltd. for the year ended 31st December, 2007 as per AS–3.

Solution :

X Ltd.

Cash Flow Statement for the year ended 31st December, 2007

Particulars	**Rs. ('000)**	**Rs. ('000)**
Cash Flows from Operating Activities		
Net Profit before Taxation (Note 1)	1,560	
Add back :		
Depreciation	1,200	
Interest Expense	150	
	2,910	
Less:	50	
Profit on Sale of Machinery (Note 2)	2,860	
Cash Generated from Oper4ations Before Working Capital Changes		
Increase in Inventory		(200)
Decrease in Trade Receivables	100	
Decrease in Trade Payables		(100)

Cash Generated from Operations	2,660	
Income tax paid	(400)	
Net Cash from Operating Activities		**2,260**
Cash Flows from Investing Activities		
Purchase of Plant	(2,500)	
Proceed of Sale of Plant	250	
Net Cash from Investing Activities		**(2,250)**
Cash Flows from Financing Activities		
Proceeds from Issue of Shares including Premium	400	
Proceeds from Issue of Debentures	500	
Payment of Dividends	(500)	
Interest Expenses	(150)	
Net Cash from Financing Activities		**250**
Net Increase in Cash and Cash Equivalents		**260**
Cash and Cash Equivalents at the Beginning of the Period (200 – 360)		**(160)**
Cash and Cash Equivalents at the End of the Period (300 – 200)		**100**

Working Notes :

Dr. **Cr.**

(1) Accumulated Profit Account

Date	Particulars	Rs.	Date	Particulars	Rs.
31.12.2007	To Taxation A/c.	500	1.1.2007	By Balance c/d	2,400
"	To Dividend A/c.	500	31.12.2007	By Net Profit (Balancing figure)	1,560
"	To Balance c/d	2,960			
		3,960			3,960

(2) Profit on Sale of Plant

Particulars	Rs. ('000)
Proceeds from Sale of Plant	250
Less: Net Book Value (Note 1) [Movement of fixed assets (Rs. 10,00,000 – 8,00,000)]	200
Profit on Sale	50

Overdraft will be treated as cash and cash equivalents.

Illustration 4

The directors of X Ltd. have been concerned about the poor financial performance shown in the company's 2006 annual accounts. Extracts from the company's Profit and Loss Account and Balance Sheet are as follows:

Profit and Loss Account for the year ended 31st December, 2006

Dr. Particulars	Rs.	Particulars	Cr. Rs.
To Cost of Goods Sold	5,40,000	By Sales (all credit)	6,00,000
(including Purchases Rs. 5,00,000)	60,000		
	6,00,000		6,00,000
To Operating Expenses	40,000	By Gross Profit b/d	60,000
To Provision for Taxation	4,000		
To Net Profit c/d	16,000		
	60,000		60,000
To Proposed Dividend	10,000	By Net Profit b/d	16,000
To Balance c/d -- transferred to Reserve and Surplus	6,000		
	16,000		16,000

Balance Sheet as at 31st December, 2006

Liabilities	Rs.	Assets	Rs.
Equity Share Capital (Rs. 10 each)	3,00,000	Fixed Assets	3,20,000
Reserves and Surplus	50,000	Current Assets :	
Current Liabilities :		Stock	1,20,000
Creditors	90,000	Debtors	60,000
Proposed Dividend	10,000		
Provision for Taxation	4,000		
Bank Overdraft	46,000		
	5,00,000		5,00,000

The directors believe that they can improve the performance of the company for 2007 in the following ways:

(i) The closing stock to be the average stock of 2006.

(ii) Keep sales at the same level as 2006, but reduce purchases by 10%.

(iii) Decrease the closing debtors by one-fourth compared with the 2006 level.

(iv) Increase the closing creditors by one-third compared with 2006 level.

(v) Sell half of the fixed assets for cash by the end of 2007 at book value (ignore depreciation).

(vi) Operating expenses will be reduced by 5% of their 2006 level.

(vii) Provision for taxation will be 25% of the net profit.

(viii) Proposed dividend will be 10% of the profit transferred to reserves and surplus.

Prepare : (a) Profit and Loss Account for 2007 and the Balance Sheet at the end of 2007.

(b) Cash Flow Statement.

Solution :

X Ltd.

Profit and Loss Account for the year ended 31 December, 2007

Dr. **Cr.**

Particulars	Rs.	Particulars	Rs.
To Opening Stock	1,20,000	By Sales	6,00,000
To Purchases (90% of Rs. 5,00,000)	4,50,000	By Closing Stock (Note 1)	1,40,000
To Gross Profit c/d	1,70,000		
	7,40,000		7,40,000
To Operating Expenses	38,000	By Gross Profit b/d	1,70,000
To Provision for Taxation (25% of Rs. 1,32,000)	33,000		
To Net Profit c/d	99,000		
	1,70,000		1,70,000
To Proposed Dividend (1/11 × Rs. 99,000)	9,000	By Net Profit b/d	99,000
To Balance c/d -- transferred to Reserve and Surplus	6,000		
	99,000		99,000

Balance Sheet as at 31st December, 2007

Liabilities	Rs.	Assets	Rs.
Equity Share Capital (Rs. 10 each)	3,00,000	Fixed Assets (50% of Rs. 3,20,000)	1,60,000
Reserves and Surplus (Rs.50,000+Rs.90,000)	1,40,000	Current Assets :	
Current Liabilities :		Stock (Note 1)	1,40,000
Creditors (Rs.90000+ 1/3 of Rs. 90000)	1,20,000	Debtors (75% of Rs. 60000)	45,000
Proposed Dividend	9,000	Bank (Balancing figure)	2,57,000
Provision for Taxation	33,000		
	6,02,000		6,02,000

Working Note :

(1) Cost of goods sold = Opening stock + Purchases – Closing stock

or, Rs. 5,40,000 = Opening stock + Rs. 5,00,000 – Rs. 1,20,000 (given in the Balance Sheet of 2006)

∴ Opening stock = Rs. (5,40,000 – 5,00,000 + 1,20,000) = Rs. 1,60,000.

$$\text{Average stock} = \frac{\text{Rs. } (1{,}20{,}000 + 1{,}60{,}000)}{2} = \text{Rs. } 1{,}40{,}000$$

X Ltd.

Cash Flow Statement for the year ended 31st December, 2007

Particulars	**Rs. ('000)**	**Rs. ('000)**
Cash Flows from Operating Activities		
Net Profit	90,000	
Add back :		
Provision for Taxation	33,000	
Proposed Dividend	9,000	
Cash Generated from Operations before Working Capital Changes	1,32,000	
Increase in Stock	(20,000)	
Decrease in Debtors	15,000	
Increase in Creditors	30,000	
	1,57,000	
Income Tax Paid	(4,000)	
Net Cash from Operating Activities		**1,53,000**
Cash Flows from Investing Activities		
Sale of Fixed Assets		1,60,000
Cash Flows from Financing Activities		
Dividend paid		(10,000)
Net Increase in Cash and Cash Equivalents		3,03,000
Cash and Cash Equivalents at the Beginning of the Period		(46,000)
Cash and Cash Equivalents at the End of the Period		2,57,000

Illustration 5

You are provided with the following figures for A Ltd. :

Summarized Balance Sheet as on 31st December……..

Liabilities	2005 Rs.	2006 Rs.	2007 Rs.	Assets	2005 Rs.	2006 Rs.	2007 Rs.
Equity Share Capital	1,00,000	1,00,000	1,00,000	Fixed Assets	1,26,000	1,37,000	1,49,000
Reserves	33,000	42,000	58,000	Add: Additions	11,000	12,000	13,000
Proposed Dividend	8,000	10,000	8,000		1,37,000	1,49,000	1,62,000
Creditors	28,000	36,000	39,000	Less: Depreciation	38,000	48,000	59,000
Bank Overdraft	--	5,000	13,000		99,000	1,01,000	1,03,000
				Stock	25,000	32,000	35,000
				Debtors	40,000	60,000	80,000
				Bank	5,000	--	--
	1,69,000	1,93,000	2,18,000		1,69,000	1,93,000	2,18,000

Profit and Loss Account for the year ended 31st December……

Dr. **Cr.**

Particulars	2006 Rs.	2007 Rs.	Particulars	2006 Rs.	2007 Rs.
To Opening Stock	25,000	32,000	By Sales: Cash	2,00,000	1,50,000
To Purchases	3,57,000	3,88,000	Credit	3,00,000	4,00,000
To Gross Profit c/d	1,50,000	1,65,000		5,00,000	5,00,000
			By Closing Stock	32,000	35,000
	5,32,000	5,85,000		5,32,000	5,85,000
To Sundry Expenses	1,21,000	1,30,000	By Gross Profit b/d	1,50,000	1,65,000
To Depreciation	10,000	11,000			
To Net Profit	19,000	24,000			
	1,50,000	1,65,000		1,50,000	1,65,000
To Proposed Dividend	10,000	8,000	By Net Profit	19,000	24,000
To Reserves	9,000	16,000			
	19,000	24,000		19,000	24,000

Note : It can be assumed that all sundry expenses were paid in the year in which they were incurred and that the creditors relate only to purchased goods.

(a) You are required to prepare a Cash Flow Statement for the year 2006 and 2007 using direct method.

Solution:

Cash Flow Statement for the year ended 31st December…….

Particulars		2006 (Rs.)		2007 (Rs.)
Cash Flows from Operating Activities				
Receipts :				
Cash Sales	2,00,000		1,50,000	
Collection from Debtors (Note 1)	2,80,000	4,80,000	3,80,000	5,30,000
Payments :				
Creditors (Note 2)	3,49,000		3,85,000	
Sundry Expenses	1,21,000	4,70,000	1,30,000	5,15,000
Net Cash from Operating Activities		10,000		15,000
Cash Flows from Investing Activities				
Purchase of Fixed Assets		(12,000)		(13,000)
Cash Flows from Financing Activities				
Dividend paid		(8,000)		(10,000)
Net Decrease in Cash		(10,000)		(8,000)
Cash and Cash Equivalents at the Beginning of the Period		5,000		5,000
Cash and Cash Equivalents at the End of the Period		(5,000)		(13,000)

Working Notes :

(1) Debtors Account

Dr. **Cr.**

Date	Particulars	2006 (Rs)	2007 (Rs)	Date	Particulars	2006 (Rs)	2007 (Rs)
	To Balance b/d (Opening)	40,000	60,000		By Bank(Bal. fig)	2,80,000	3,80,000
	To Credit Sales	3,00,000	4,00,000		By Balance c/d (Closing)	60,000	80,000
		3,40,000	4,60,000			3,40,000	4,60,000

(2) Creditors Account

Dr. **Cr.**

Date	Particulars	2006 (Rs)	2007 (Rs)	Date	Particulars	2006 (Rs)	2007 (Rs)
	To Bank (Bal. fig.)	3,49,000	3,85,000		By Balance b/d (Closing)	28,000	36,000
	To Balance c/d (Closing)	36,000	39,000		By Credit Purchases	3,57,000	3,88,000
		3,85,000	4,24,000			3,85,000	4,24,000

Illustration 6

The following are the Balance Sheets of Progressive Ltd. as at 31st December (all figures in thousand rupees).

Liabilities	2006	2007	Assets	2006	2007
	Rs.	Rs.		Rs.	Rs.
Share Capital			**Fixed Assets**		
Equity Share Capital	3,500	4,900	Gross Block	8,400	12,320
Reserve and Surplus			Less: Accumulated Depreciation	2,800	3,500
Securities and Premium	700	2,100	Net Block	5,600	8,820
General Reserve	2,800	3,423	**Investments**		
Profit and Loss Account	700	770	Long-term	2,800	3,500
Secured Loans			Short-term	1,400	2,100
12% Debentures	4,200	5,600	**Current Assets, Loans and Advances**		
Unsecured Loan	NIL	NIL	Stock-in-trade	2,800	3,500
Current Liabilities and Provisions			Debtors	2,800	2,723
Sundry Creditors	2,800	3,220	Advance Tax	700	840
Short-term Loans	420	560	Cash in Hand and at Bank	700	560
Provision for Taxation	700	700	Security Deposit	70	140
Outstanding Expenses	700	840	Long-term Advance to Employees	350	910
Proposed Dividend	700	980			
	17,220	23,093		17,220	23,093

Trading, Profit and Loss Account for the year ended 31st December, 2007

Dr. Particulars	Rs. ('000)	Particulars	Cr. Rs. ('000)
To Opening Stock	2,800	By Sales (Credit)	14,000
To Purchases (Credit)	5,600	By Closing Stock	3,500
To Direct Expenses	700		
To Gross Profit c/d	8,400		
	17,500		17,500
To Salaries	2,800	By Gross Profit b/d	8,400
To Administrative Expenses	1,400	By Interest and Dividends on Investments:	
To Selling and Distribution Expenses	700	Short-term	35
To Depreciation	700	Long-term	350
To Interest on :		By Interest on Advance to Employees	35
Short-term Loan	70		
Debentures	637		
To Provision for Taxation	840		
To Net Profit c/d	1,673		
	8,820		8,820
To General Reserve	623	By Balance b/d	700
To Proposed Dividend	980	By Net Profit b/d	1,673
To Balance c/d	770		
	2,373		2,373

Additional Information :

(1) All short-term investments are risk-free. Both short-term investments and long-term loans will mature within three months.

(2) Tax paid for 2006 on assessment Rs. 1,40,000.

(3) Plant costing Rs. 14,00,000 was purchased by issuing equity shares of Rs. 10 each at a premium of Rs. 10 each. Balance equity shares were issued at same rate of premium.

You are required to prepare a Cash Flow Statement for the year ended 31st December, 2007 by using :

(i) Direct Method, and

(ii) Indirect Method.

Solution :

Progressive Ltd.

Cash Flow Statement for the year ended 31st December, 2007 [Direct Method]

Particulars	Rs ('000)	Rs. ('000)
Cash Flows from Operating Activities		
Cash collected from debtors (Note 1)	14,077	
Interest and dividend on short-term investments (Note 6)	35	
Payment to creditors (Note 2)		(5,180)
Payment to employees (salary)	(2,800)	
Payment of direct expenses (Note 3)	(560)	
Payment of administrative expenses	(1,400)	
Payment of selling and distribution expenses	(700)	
Interest paid on short-term loans (Note 7)	(70)	
Cash Generated from Operations	3,402	
Payment of Advance Tax	(840)	
Payment of Income Tax for 2006	(140)	
Net Cash from Operating Activities		**2,422**
Cash Flows from Investing Activities		
Purchase of fixed assets for cash (12,320 -1,400 - 8,400)	(2,520)	
Purchase of long-term investments (3,500 - 2,800)	(700)	
Increase in security deposit	(70)	
Increase in long-term advances	(560)	
Interest and dividend received from investment	350	
Interest received on advance to employees	35	
Net Cash from Investing Activities		**(3,465)**
Cash Flows from Financing Activities		
Proceeds from issue of shares including premium (Note 8)	1,400	
Proceeds from issue of debentures	1,400	
Dividend paid	(700)	
Interest on debentures paid	(637)	
Net Cash from Financing Activities		**1,463**
Net Increase in Cash and Cash Equivalents		**420**
Cash and Cash Equivalents at the Beginning of the Period (Note 4)		**1,680**
Cash and Cash Equivalents at the End of the Period (Note 5)		**2,100**

Progressive Ltd.

Cash Flow Statement for the year ended 31st December, 2007 [Indirect Method]

Particulars	Rs. ('000)	Rs. ('000)
Cash Flows from Operating Activities		
Net Profit after Tax	1,673	
Add: Provision for Taxation	840	
	2,513	
Add back:		
Depreciation	700	
Interest on Debentures	637	3,850
Less:		
Interest and Dividend on Long-term Loans	(350)	
Interest on Advance to Employees	(35)	
Cash Generated from Operating Activities Before Working Capital Changes	3,465	
Increase in Stock (Rs 3,500 - 2,800)	(700)	
Decrease in Debtors (Rs 2,800 - 2,723)	77	
Increase in Sundry Creditors	420	
Increase in Outstanding Expenses	140	
Cash Generated from Operations	3,402	
Payment of Advance Tax	(840)	
Payment of Income Tax for 2006	(140)	
Net Cash from Operating Activities		**2,422**
Cash Flows from Investing Activities		
Purchase of Fixed Assets for cash (12,320 -1,400 - 8,400)	(2,520)	
Purchase of Long-term Investments (3,500 - 2,800)	(700)	
Increase in Security Deposit	(70)	
Increase in Long-term Advances	(560)	
Interest and Dividend Received on Long-term Loans	350	
Interest on Advance to Employees	35	
Net Cash from Investing Activities		**(3,465)**
Cash Flows from Financing Activities		
Proceeds from Issue of Shares including Premium (Note 8)	1,400	
Proceeds from Issue of Debentures	1,400	
Dividend Paid	(700)	
Interest on Debentures Paid	(637)	
Net Cash from Financing Activities		**1,463**
Net Increase in Cash and Cash Equivalents		**420**
Cash and Cash Equivalents at the Beginning of the Period (Note 4)		**1,680**
Cash and Cash Equivalents at the End of the Period (Note 5)		**2,100**

Working Notes :

(1) Cash Collected from Debtors

Particulars	Rs ('000)
Opening balance of Debtors	2,800
Add: Credit sales	14,000
	16,800
Less: Closing balance of Debtors	2,723
	14,077

(2) Payment to Creditors

Particulars	Rs ('000)
Opening Balance of Creditors	2,800
Add: Credit Purchases	5,600
	8,400
Less: Closing Balance of Creditors	3,220
	5,180

(3) Direct Expenses Paid

Opening Balance of Outstanding Expenses	700
Add: Expenses for the year	700
	1,400
Less: Closing Balance of Outstanding Expenses	840
	560

(4) Cash & Cash Equivalent at the Beginning

Cash in Hand and at Bank	700
Add: Short-term Investments	1,400
	2,100
Less: Short-term Loans	420
	1,680

(5) Cash and Cash Equivalent at the End

Cash in Hand and at Bank	560
Add: Short-term Investments	2,100
	1,400
Less: Short-term Loans	560
	2,100

(6) Interest and dividends received on short-term investments will be treated as inflow from operating activities.

(7) Interest paid for short-term loans will be treated as outflow from operating activities.

(8) Plant of Rs 14,00,000 was purchased by issuing of equity shares of Rs 10 at a premium of Rs 10 each.

The entry will be :

Plant Account	Dr.	Rs 14,00,000	
To Equity Share Capital Account			Rs 7,00,000
To Securities Premium Account			Rs 7,00,000

Total increase in share capital Rs 14,00,000 (Rs 49,00,000 - 35,00,000). Out of this, Rs 7,00,000 was due to purchase of Plant. Therefore, the balance Rs 7,00,000 increase in share capital was due to issue of shares for cash.

Likewise, total increase in securities premium Rs 14,00,000 (Rs 21,00,000-7,00,000). Out of this Rs7,00,000 was due to purchase of Plant. So balance of Rs 7,00,000 increase in securities premium was due to issue of shares for cash.

Total cash flow = Rs 7,00,000 for shares + Rs 7,00,000 for premium = Rs 14,00,000.

Illustration 7

Examine the following schedule prepared by K Ltd.

K Ltd.

Schedule of funds provided by operations for the year ended 31st July, 1999

		(Rs.'000)	(Rs.'000)
Sales		32,760	
Add : Decrease in bills receivable.		1,000	
Less : Increase in accounts receivable		(626)	
Inflow from operating revenues			33,134
Cost of goods sold	18,588		
Less : Decrease in inventories	(212)		
Add : Decrease in trades payable	81	18,457	
Wages and Salaries	5,284		
Less : Increase in wages payable	(12)	5,272	
Administrative Expenses	3,066		
Add : Increase in prepaid expenses	11	3,077	
Property taxes		428	
Interest expenses	532		
Add : Amortisation of premium on bonds payable	20	552	
Outflow from operating expenses			27,786
From operations			5,348
Rent Income	207		
Add : Increase in unearned rent	3		210
			5,558
Income tax	1,330		
Less : Increase in deferred tax	50		1,280
Funds from operations			4,278

Required :

(i) What is the definition of funds shown in the schedule?

(ii) What amount was reported as gross margin in the income statement?

(iii) How much cash was collected from the customers?

(iv) How much cash was paid for the purchases made?

(v) As a result of change in inventories, did the working capital increase or decrease and by what amount?

(vi) How much rent was actually earned during the year?

(vii) What was the amount of tax expenses reported on the income statement?

Can you reconcile the profit after tax-with the funds provided by the operations?

Solution :

(i) 'Funds' shown in the schedule refer to the cash and cash equivalents [as defined in AS 3 (Revised) on Cash Flow Statements].

(ii) Gross margin in the income statement :

	Rs. ('000)
Sales	32,760
Cost of goods sold	18,588
	14,172

(iii)	Cash collected from the customers	33,134
(iv)	Cash paid for purchases made	18,457
(v)	Change in inventories would reduce the working capital by	212
(vi)	Rental income earned during the year	207
(vii)	Tax expenses reported in the income statement	1330

(viii) **Reconciliation Statement**

	Rs.('000)
Profit after tax (See W.N.)	3,719
Decrease in bills receivable	1,000
Increase in accounts receivable	(626)
Decrease in inventories	212
Decrease in trades payable	(81)
Increase in wages payable	12
Increase in prepaid expenses	(11)
Increase in unearned rent	3
Increase in deferred tax	50
Funds from operations as shown in the schedule (i.e. cash and cash equivalents)	4,278

Working Note :

Calculation of Profit after Tax

		Rs. ('000)
Sales		32,760
Less : Cost of goods sold		18,588
Gross margin		14,172
Add : Rental income		207
		14,379
Less : Wages and salaries	5,284	
Administrative expenses	3,066	
Property taxes	428	
Interest expenses	532	
Amortisation of premium on bonds payable	20	
		9,330
Profit before tax		5,049
Less : Income tax		1,330
Profit after tax		3,719

Illustration 8

The following data were provided by the accounting records of Ryan Ltd. at year-end, March 31, 2006:

Income Statement

		Rs.
Sales		6,98,000
Cost of Goods Sold		(5,20,000)
Gross Margin		1,78,000
Operating Expenses		
(including Depreciation Expense of Rs. 37,000)		(1,47,000)
		31,000
Other Income (Expenses)		
Interest Expense paid	(23,000)	
Interest Income received	6,000	
Gain on Sale of Investments	12,000	
Loss on Sale of Plant	(3,000)	
		(8,000)
		23,000
Income tax		(7,000)
		16,000

Comparative Balance Sheets Rs.

	31st March 2006	31st March 2005
Assets	7,15,000	5,05,000
Plant Assets	(1,03,000)	(68,000)
Less: Accumulated Depreciation	6,12,000	4,37,000
Investments (Long term)	1,15,000	1,27,000
Current Assets:	1,44,000	1,10,000
Inventory	47,000	55,000
Accounts Receivable	46,000	15,000
Cash	1,000	5,000
Prepaid Expenses	9,65,000	7,49,000
Liabilities		
Share Capital	4,65,000	3,15,000
Reserves and Surplus	1,40,000	1,32,000
Bonds	2,95,000	2,45,000
Current Liabilities:		
Accounts Payable	50,000	43,000
Accrued Liabilities	12,000	9,000
income Taxes Payable	3,000	5,000
	9,65,000	7,49,000

Analysis of selected accounts and transactions during 2005-2006

1. Purchased investments for Rs. 78,000
2. Sold investments for Rs. 1,02,000.
   These investments cost Rs. 90,000
3. Purchased plant assets for Rs. 1,20,000
4. Sold plant assets that cost Rs. 10,000 with accumulated depreciation of Rs. 2,000 for Rs. 5,000.
5. Issued Rs. 1,00,000 of bonds at face value in an exchange for plant assets on 31st March, 2006
6. Repaid Rs. 50,000 of bonds at face value at maturity.
7. Issued 15,000 shares of Rs. 10 each.
8. Paid cash dividends Rs. 8,000.

Prepare Cash Flow Statement as per AS-3 (Revised), using indirect method.

Solution

Ryan Ltd.
Cash Flow Statement
for the year ending 31st March, 2006

	Rs.	Rs.
Cash flows from operating activities		
Net profit before taxation	23,000	
Adjustments for:		
Depreciation	37,000	
Gain on sale of investments	(12,000)	
Loss on sale of plant assets	3,000	
Interest expense	23,000	
Interest income	(6,000)	
Operating profit before working capital changes	68,000	
Decrease in accounts receivable	8,000	
Increase in inventory	(34,000)	
Decrease in prepaid expenses	4,000	
Increase in accounts payable	7,000	
Increase in accrued liabilities	3,000	
Cash generated from operations	56,000	
Income taxes paid*	(9,000)	
Net cash from operating activities		47,000
Cash flows from investing activities		
Purchase of plant assets	(1,20,000)	
Sale of plant assets	5,000	
Purchase of investments	(78,000)	
Sale of investments	1,02,000	
Interest received	6,000	
Net cash used in investing activities		(85,000)

Cash flows from financing activities		
Proceeds from issuance of share capital	1,50,000	
Repayment of bonds	(50,000)	
Interest paid	(23,000)	
Dividends paid	(8,000)	
Net cash from financing activities		69,000
Net increase in cash (and cash equivalents)		31,000
Cash (and cash equivalents) at beginning of period		15,000
Cash (and cash equivalents) at end of period		46,000

***Working Note**:

	Rs.
Income taxes paid:	
Income tax expense for the year	7,000
Add: Income tax liability at the beginning of the year	5,000
	12,000
Less: Income tax liability at the end of the year	3,000
	9,000

Illustration 9

From the following information, prepare a Cash Flow Statement as per AS 3 (or Banjara Ltd, using direct method:

		2010		2009
Assets:				
Cash on hand and balances with bank		200		25
Marketable securities (having one month maturity)		670		135
Sundry debtors		1,700		1,200
Interest receivable		100		-
Inventories		900		1,950
Investments		2,500		2,500
fixed assets at cost	2,180		1,970	
Accumulated depreciation	(7,450)		(1,060)	
Fixed assets (net)		730		850
Total assets		6,800		6,660
Liabilities:				
Sundry creditors		150		1,890
Interest payable		230		100
Income tax payable		400		1,000
Long term debt		1,110		1,040
Total liabilities		1,890		4,030

Shareholder's fund:		
Share capital	1,500	1,250
Reserves	3,410	1,380
	4,910	2,630
Total liabilities and shareholders' fund	6,800	6,660

Statement of Profit or Loss for the year ended 31-3-10

Sales	30,650
Cost of sales	(26,000)
Gross profit	4,650
Depreciation	(450)
Administrative and selling expenses	(910)
Interest expenses	(400)
Interest income	300
Dividend income	200
Net profit before taxation and extra ordinal items	3,390
Extraordinary items:	
Insurance proceeds from earthquake disaster settlement	140
Net profit after extraordinary items	3,530
Income tax	300
	3,230

Additional Information (Rs. in '000)

(i) An amount of 250 was raised from the issue of share capital and a further, 250 was raised from long-term borrowings.

(ii) Interest expense was 400 of which 170 was paid during the period 100 relating to interest expense of the prior period was also paid during the period.

(iii) Dividends paid were 1,200.

(iv) Tax deducted at source on dividends received (including in the tax expense of 300 for the year) amounted to 40.

(v) During the period the entelprise acquired fixed assets for 350. The payment was made in cash.

(vi) Plant with original cost of 80 and accumulated depreciation of 60 was sold for 20.

(vii) Sundry debtors and Sundry creditors include amounts relating to credit sales and credit purchase only. (16 Marks)

Solution

Cash Flow Statement (direct method)

Cash flows from Operating Activities		
Cash receipts from customers (W.N.2)	30,150	
Cash paid to suppliers, employees and for expenses (W.N.3)	(27,600)	
Cash generated from operations	2,550	
Income tax paid (WN.4)	(860)	
	1,690	
Cash flow before extraordinary item:		
proceeds from earthquake disaster settlement	140	
Net cash from operating activities		1,830
Cash flows from Investing Activities		
Purchase of fixed assets	(350)	
Proceeds from sale of equipment	20	
interest received (300 - 100)	200	
Dividends received (200 - 40)	160	
Net cash from investing activities		30
Cash flows from Financing Activities		
Proceeds from Issuance of share capital	250	
Proceeds from long term borrowings	250	
Repayment of long term borrowings (W.N.5)	(180)	
Interest paid (W.N.6)	(270)	
Dividends paid	(1,200)	
Net cash used in financial activities		(1,150)
Net increase in cash and cash equivalents		710
Cash and cash equivalents at beginning of the period (W.N.1)		160
Cash and cash equivalents at end of the period (W.N.1)		870

Working Notes:

(1) Cash and cash equivalents

Cash and cash equivalents consist of cash in hand and balances with banks and investments in money market instruments for short period

(Rs. in '000)

	2010	**2009**
Cash in hand and balance with bank	200	25
Short-term investments	670	135
Cash and cash equivalents	870	160

(2) Cash receipts from customers

	(Rs. in '000)
Total sales	30,650
Add: Sundry debtors at the beginning of the year	1,200
	31,850
Less: Sundry debtors at the end of the year	(1,700)
Cash sales	30,150

(3) Cash paid to suppliers, employees and for expenses

		(Rs. in '000)
Cost of sales		26,000
Administrative and selling expenses		910
		26,910
Add: Sundry creditors at the beginning of the year	1,890	
Inventories at the end of year	900	2,790
		29,700
Less: Sundry creditors at the end of year	(150)	
Inventories at the beginning of the year	(1,950)	(2,100)
		27,600

(4) Income tax paid (including TDS from dividends received)

	(Rs. in '000)
Income tax expense for the year	300
(including tax deducted at source from dividends received)	
Add: Income tax liability at the beginning of the year	1,000
	1,300
Less: Income tax liability at the end of the year	(400)
	900

Out of' 900 thousands, tax deducted at source on dividends received (amounting to 40 thousands) is included in cash flows from investing activities and the balance of 860 thousands is included in cash flows from operating activities.

(5) Repayment of long term borrowings during the year

	(Rs. in '000)
Long term debts at the beginning of the year	1,040
Add: Long term borrowings made during the year	250
	1,290
Less: Long term borrowings at the end of the year	(1,110)
	180

(6) Interest Paid

	(Rs. in '000)
Interest expense for the year	400
Add: Interest payable at the beginning of the year	100
	500
Less: Interest payable at the end of the year	(230)
	270

Illustration 10

The following particulars relate to Bee Ltd., for the year ended 31st March, 2010:

(i) Furniture of book value of Rs. 15,500 was disposed off for Rs 12,000.

(ii) Machinery costing Rs. 3,10,000 was purchased and Rs. 20,000 were spent on its erection.

(iii) Fully paid 8% preference shares of the face value of Rs. 10,00,000 were redeemed at a premium of 3%. In this connection 60,000 equity shares of Rs. 10 each were issued at a premium of Rs. 2 per share. The entire money being received with applications.

(iv) Dividend was paid as follows;

On 8% preference shares	Rs,40,000
On equity shares for the year 2009-10	Rs. 1,10,000

(v) Total sales were Rs. 32,00,000 out of which cash sales were Rs. 11,50,000.

(vi) Total purchases were Rs. 8,00,000 including cash purchase of Rs. 60,000.

(vii) Total expenses were Rs. 12,40,000 charged to Profit and Loss A/c.

(viii) Taxes paid including dividend distribution tax of Rs. 22,500 were Rs.3,30,000.

(ix) Cash and cash equivalents as on 31st March, 2010 were Rs. 1,25,000.

You are requested to prepare Cash Flow Statement as per AS 3 for the year ended 31st March, 2010 after taking into consideration the following also.

	On 31st March, 2009 (Rs.)	On 31st March, 2010 (Rs.)
Sundry debtors	1,50,000	1,47,000
Sundry creditors	78,000	83,000
Unpaid expenses	63,000	55,000

(8+8= 16 Marks)

(b) **Cash Flow Statement for the year ended 31st March, 2010**

		Rs.	Rs
I.	**Cash flow from operating activities**		
	Cash receipts from customers (W.N. 1)	32,03,000	
	Less Cash paid to suppliers and		
	payment for expenses (W.N. 3)	(20,43,000)	
	Cash generated from Corporations	11,60,000	
	Income tax paid (Rs. 3,30,000 – Rs. 22,500)	(30,7,500)	
	Net cash from operating activities		8,52,500
II.	**Cash flows from investing activities**		
	Sale of furniture	12,000	
	Purchase of machinery	(3,30,000)	
	Net cash from investing activities		(3,18,000)
III.	**Cash flow from financing activities**		
	Proceeds from Issue of equity shares	7,20,000	
	Redemption of 8% preference shares	(10,30,000)	
	Dividend paid (Rs. 40,000 + Rs. 1,10,000)	(1,50,000)	
	Dividend distribution tax paid	(22,500)	
	Net cash from financing activities		(4,82,500)
Net Increase in cash and cash equivalents			52,000
Add: Cash and cash equivalents as on 31st March, 2009 (Bal. Fig)			73,000
Cash and cash equivalents as on 31st March, 2010			1,25,000

Working Notes:

1. Cash receipt from customers:

Credit sales = Total sales Rs.32,00,000 - Cash sales Rs. 11,50,000 = Rs. 20,50,000

Total Debtors Account

	Rs.		Rs.
To Balance b/d	1,50,000	By Cash/ Bank (Bal. fig.)	20,53,000
To Credit sales	20,50,000	By Balance c/d	147,000
	22,00,000		22,00,000

Total sale receipts = Rs.20,53,000 + Rs. 11,50,000 = Rs. 32,03,000

2. Cash payment to suppliers:

Credit Purchases = Total purchases Rs. 8,00,000 - Cash purchases Rs. 60,000 = Rs. 7,40,000

Total Creditors Account

	Rs.		Rs.
To Cash/Bank (Bal. fig.)	7,35,000	By Balance b/d	78,000
To Balance c/d	83,000	By Credit purchases	7,40,000
	8,18,000		8,18,000

Total payments to suppliers = Rs.7,35,000 + Rs. 60,000 = Rs. 7,95,000

3. Cash paid to suppliers and payment for expenses

	Rs.
Outstanding expenses as on 31.3.2009	63,000
Add: Expenses charged to profit and loss account	12,40,000
	13,03,000
Less: Outstanding expenses as on 31.3.2010	55,000
Payment on account of expenses	12,48,000

Total of payment to suppliers and payment for expenses
= Rs.7,95,000 + Rs. 12,48,000 = Rs. 20,43,000

CHAPTER - 11

Average Due Date

Illustration 1

Calculate average due date from the following information :

Date of the bill	Term	Amount of the bills (Rs.)
August 10, 2007	3 months	6,000
October 23, 2007	60 days	5,000
December 4, 2007	2 months	4,000
January 14, 2008	60 days	2,000
March 8, 2008	2 months	3,000

2008 is no leap year.

Solution :

Calculation of Average Due Date **Base Date : 13.11.2007**

Date	Due Date	No. of Days from base date		Amount (Rs.)	Products
10.8.2007	13.11.2007		= 0	6,000	0
23.10.2007	24.12.2007	17 + 24	= 41	5,000	2,05,000
04.12.2007	07.2.2008	17 + 31 + 31 + 7	= 86	4,000	3,44,000
14.1.2008	18.3.2008	17 + 31 + 31 + 28 + 18	= 125	2,000	2,50,000
08.3.2008	11.5.2008	17 + 31 + 31 + 28 + 31 + 30 + 11	= 179	3,000	5,37,000
				20,000	13,36,000

Average due date = Base date + $\frac{13,36,000}{20,000}$ days = 13.11.2007 + 67 days (Rounded off) = **19.1.2008**.

Working Note :

Calculation of Due Date

Date of the bill	Period	October	November	December	January	February	March	Due date with days of grace
August 12, 2007	3 months	--	--	--	--	--	--	13.11.2007
October 23, 2007	60 days	8	30	22	--	--	--	24.12.2007*
December 4, 2007	2 months	--	--	--	--	--	--	07.2.2008
January 14, 2008	60 days	--	--	--	17	28	15	18.3.2008
March 8, 2008	2 months	--	--	--	--	--	--	11.5.2008

*After considering 3 days of grace, the actual due date falls on 25th December. It is a public holiday, therefore due date will be 24th December, 2007.

Illustration 2

Mr. Neutral purchased goods from Mr. Positive on two month's credit. The purchases were made on the following dates :

	Rs.
(a)3rd March, 2007	750
(b)13th April, 2007	500
(c)8th May, 2007	700
(d)5th June, 2007	1,000
(e)20th July, 2007	600

He wishes to pay the total amount of Rs. 3,550 on the basis of average due date.

(i) Find out average due date.

(ii) If he desires to make the whole payment on 22nd September, 2007, what will be the amount

of interest @ 10% p.a.?

Solution :

Calculation of Average Due Date **Base Date : 03.05.2007**

Date	Due Date	No. of Days from base date		Amount (Rs.)	Products
03.03.2007	03.05.2007		= 0	750	0
13.04.2007	13.06.2007	28 + 13	= 41	500	20,500
08.05.2007	08.07.2007	28 + 30 + 8	= 66	700	46,200
05.06.2007	05.08.2007	28 + 30 + 31 + 5	= 94	1,000	94,000
20.07.2007	20.09.2007	28 + 30 + 31 + 31 + 20	= 140	600	84,000
				3,550	2,44,700

Average due date = Base date + $\frac{2,44,700}{3,550}$ days = 03.05.2007 + 69 days (Rounded off) = **11.07.2007**.

Desired date of payment = 22.09.2007. Difference between due date and desired date of payment.

= 20 + 31 + 22 = 73 days

Interest = Rs. 3,550 × 10 / 100 × 73 / 365 = Rs. 71.

Illustration 3

Mr. Green and Mr. Red had the following mutual dealings and desire to settle their account on the average due date:

Purchases by Green from Red:	Rs.
6th January, 2008	6,000
2nd February, 2008	2,800
31st March, 2008	2,000
Sales by Green to Red:	
6th January, 2008	6,600
9th March, 2008	2,400
20th March, 2008	500

You are asked to ascertain the average due date.

Solution

Calculation of Average Due Date

Taking 6th January, 2008 as base date

For Green.s payments

Due date	Amount	No. of days from the base date i.e. 6th Jan. 2008	Product
2008	Rs.		
6th January	6,000	0	0
2nd February	2,800	27	75,600
31st March	2,000	84	1,68,000
Total	10,800		2,43,600
For Red's payment			
2008			
6th January	6,600	0	0
9th March	2,400	62	1,48,800
20th March	500	73	36,500
Total	9,500		1,85,300

$$\text{ADD} = \frac{2{,}43{,}600 - \text{Rs. } 1{,}85{,}300}{10{,}800 - 9{,}500}$$

$$= 45 \text{ days (approx.)}$$

Hence, the date of settlement of the balance amount is 45 days after 6th January i.e. on 20th February.

On 20th February, 2008, Green has to pay Red Rs. 1,300 to settle the account.

Illustration 4

The partnership deed of a firm provides that at the end of every half accounting year, itself on drawings will be charged @ 10% per annum. One partner has withdrawn the following sums of money during the half year ended 31st March.

Date	Amount Rs.
October 18, 1998	3,000
November 20, 1998	2.500
December II, 1998	1,400
December 27, 1998	1,900
January 19, 1999	3,500
February 16, 1999	4,000
March 14, 1999	5,000

You are required to find out the average due date and calculate the amount of interest to be debited to the partner.

Solutions

Calculation of average due date:

Assuming October 18, 1998 as the base date, average due date can be calculated as follows:

Due Date (1)	Amount (2)	Number of days from Oct. 18,1998 (3)	Product (2) x (3)
October 18, 1998	3,000	0	0
November 20, 1998	2,500	33	82,500
December II, 1998	1,400	54	75,600
December 27, 1998	1,900	70	1,33,000
January 21, 1999	3,500	95	3,32,500
February 16, 1999	4,000	121	4,84,000
March 12, 1999	5,000	145	7,25,000
	21,300		18,32,600

Average due date is 18,32,600/ 21,300 = 86 days away from the base date. Hence, average due date is 12t January.
Number of days from the average due date i.e. 12th January, 1999 to 31st March, 1999 = 78 days
Interest on Rs. 21, 300 @ 10% p.a. for 78 days
= Rs. 21,300 x (10/ 100) x (74/ 365) = Rs. 455.18 P.

Illustration 5

From the following details find out the average due date.

Date of Bill	Amount	Usance of Bill
29th January, 2009	5,000	1 month
20th March, 2009	4,000	2 months
12th July, 2009	7,000	1 month
10th August, 2009	6,000	2 months

(4 x 4 = 16 Marks)

Solution :

Calculation of Average Due Date

(Taking 3rd March, 2009 as base date)

Date of bill 2009	Term	Due date 2009	Amount	No. of days from the base date i.e. 3rd March, 2009	Product
29th January	1 month	3rd March[1]	5,000	0	0
20th March	2 months	23rd May	4,000	81	3.24.000
12th July	1 month	14th Aug.[2]	7,000	164	11,48000
10th August	2 months	13th Oct.	6,000	224	13,44,000
			22,000		28,16,000

Average due date $= \text{Base date} + \text{days equal to } \dfrac{\text{Sum of Products}}{\text{Sum of Amount}}$

$= 3^{rd} \text{ March } 2009 + \dfrac{28,16,000}{22,000}$

$= 3^{rd}$ March, 2009 + 128 days

$= 9^{th}$ July, 2009

1 Bill dated 29th January, 2009 has the maturity period of one mouth, but there is no corresponding date in February, 2009 Therefore, the last day of the month i.e. 28th February, 2009 shall be deemed maturity date and due date would be 3rd March, 2009 (after adding 3 days of grace)

2 Bill dated, 12th July, 2009 has the maturity period of one mouth due date (after adding 3 days of grace) fall, on 15th August, 2009 15th August being public holiday, due date would be preceding date i.e. 14th August, 2009

(b) A trader allows his customers, credit for one week only beyond which he charges interest @ 12% per annum. Anil, a customer buys goods as follows:

Date of Sale/Purchase	Amount (Rs.)
January 2, 2009	6,000
January 28, 2009	5,500
February 17, 2009	7,000
March 3, 2009	4,700

Anil settles his account on 31st March, 2009. Calculate the amount of interest payable by Anil using average due date method. (8 + 8 =16 Marks)

(b) Let us assume 9th January, 2009 to be the base date:

Date of Sale	Due date of payment	Amount (Rs.)	No. of days from 9th January, 2009	Product
Jan. 2	Jan. 9	6,000	0	0
Jan. 28	Feb. 4	5,500	26	1,43,000
Feb. 17	Feb. 24	7,000	46	3,22,000
March 3	March 10	4,700	60	2,82,000
		23,200		7,47,000

$$\text{Average Due date} = \text{Base date} + \frac{\text{Sum of Product}}{\text{Sum of Amount}}$$

$$= \text{9th January, 2009} + \frac{7,47,000}{23,200}$$

= 9th January 2009 + 32 days

i.e. 32 days from 9th January, 2009 = 10th February, 2009
Thus, average due date = 10th February, 2009
No. of days from 10th February, 2009 to 31st March, 2009 = 49 days.
Interest payable by Anil on Rs.23,200 for 49 days @ 12% per annum

$$= \text{Rs.}23,200 \times \frac{49}{365} \times \frac{12}{100} = \text{Rs.}373.74$$

CHAPTER - 12

Self And Sectional Balancing Ledgers

Illustration 1

Modern Traders operates a computerized accounting system for its debtors and creditors ledgers. The control accounts for the month of Mach 2008 are in balance and incorporate the following totals :

Debtors Ledger :	**Rs.**	**Creditors Ledger :**	**Rs.**
Balance at 1 March, 2008		Balance at 1 March, 2008	
Debit	3,86,430	Credit	1,84,740
Credit	190	Debit	520
Sales	1,63,194	Purchases	98,192
Cash received	1,58,288	Cash paid	1,03,040
Discount allowed	2,160	Discount received	990
Returns inwards	590	Returns outwards	1,370
Credit balance at 31st March, 2008	370	Debit balance at 31st March, 2008	520

Although the control accounts agree with the underlying ledgers, a number of errors have been found, and there are also several adjustments to be made. These errors and adjustments are detailed below :

(1) Four sales invoices totaling Rs. 1,386 have been omitted from the records.

(2) A cash refund of Rs. 350 paid to a customer, A Sen, was mistakenly treated as a payment to a supplier with the same name.

(3) A contra settlement offsetting a balance of Rs. 870 due to supplier against the debtors ledger account for the same party is to be made.

(4) Bad debts totaling Rs. 1,360 are to be written-off.

(5) During the month, a settlement was reached with a supplier over a disputed account. As a result, the supplier issued a credit note for Rs. 2,000 on March 26. No entry has yet been made for this.

(6) A purchases invoice for Rs. 1,395 was keyed in as Rs. 1,359.

(7) A payment of Rs. 2,130 to a supplier, B Rao, was mistakenly entered to the account of R Rao.

You are required to :

(i) Prepare the Debtors Ledger Control Accounts;

(ii) Prepare Creditors Ledger Control Account;

as they should appear after allowing, where necessary, for the errors and adjustments listed above.

Solution :

Debtors Ledger Control Account

Dr. Date	Particulars	Rs.	Date	Particulars	Cr. Rs.
1.3.2008	To Balance b/d	3,86,430	1.3.2008	By Balance b/d	190
31.3.2008	To Sales (Rs. 1,63,194+1,386)	1,64,580	31.3.2008	By Cash	1,58,288
	To Creditors Ledger Control A/c. (Refund)	350		By Discount Allowed	2,160
				By Bad Debts	1,360
	To Balance c/d	370		By Returns Inwards	590
				By Creditors Ledger Control A/c. (Transfer)	870
				By Balance c/d	3,88,272
		5,51,730			5,51,730

Creditors Ledger Control Account

Dr. Date	Particulars	Rs.	Date	Particulars	Cr. Rs.
1.3.2008	To Balance b/d	520	1.3.2008	By Balance b/d	1,84,740
31.3.2008	To Cash	1,03,040	31.3.2008	By Purchases (Rs. 98,192+36)	98,228
	To Discount Received	990		By Debtors Ledger Control A/c. (Refund)	350
	To Allowances	2,000		By Balance c/d	520
	To Debtors Ledger Control A/c. (Transfer)	870			
	To Returns Outwards	1,370			
	To Balance c/d	1,75,048			
		2,83,838			2,83,838

Illustration 2

R & Co. has three ledger viz., a Sales Ledger, a Purchase Ledger and a General Ledger maintained under self balancing system. From the following particulars, prepare the necessary adjustment accounts as they would appear in the General Ledger.

1.4.2007 : Balance of Sales Ledger (Dr.) Rs. 50,400; (Cr.) Rs. 400; Balance of Purchases Ledger (Dr.) Rs. 2,140; (Cr.) Rs. 37,140.

31.3.2008 : Credit sales Rs. 14,000; Cash sales Rs. 15,000; Credit purchases Rs. 30,000; Cash purchases Rs. 12,000; Credit notes issued to customers Rs. 1,000; Credit notes received from suppliers Rs/ 600; Bills payable accepted Rs. 4,000; Bills receivable received Rs. 5,000; Bills receivable dishonoured Rs. 100; Interest charged on dishonoured bills Rs. 10; Cash received from customers in settlement of full claims Rs. 30,400 – Rs. 30,000; Cash paid to suppliers in full satisfaction of their dues of Rs. 25,300 – Rs. 25,000; Bad debts Rs. 500; Bad debts previously written off now recovered Rs. 100; Provision for bad and doubtful debts Rs. 1,000; Provision for discount on creditors Rs. 500; Transfer from Sales Ledger to Purchase Ledger Rs. 200; Balance of sales ledger (Cr.) Rs. 290; Balance of purchases ledger (Dr.) Rs. 100.

Goods of sales value of Rs. 300 were returned by a customer for which fresh goods were issued. Though a credit note was issued for the return of the goods. The sales invoice was inadvertently not prepared for the issue of fresh goods.

Solution :

In the General Ledger

Dr. Debtors Ledger Adjustment Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.07	To Balance b/d	50,400	1.4.07	By Balance b/d	400
31.3.08	To General Ledger Adj. A/c. :		31.3.08	By General Ledger Adj. A/c. :	
	Sales (credit)	14,000		Collection from debtors	30,000
	Bills receivable			Discount allowed	400
	(dishonoured)	100		Returns inwards (Note 1)	1,000
	Interest charged	10		Bills receivable received	5,000
	Sales not recorded	300		Bad debts	500
31.3.08	To Balance b/d	290		Transfer	200
				By Balance c/d	27,600
		65,100			65,100

Dr. Creditors Ledger Adjustment Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1.4.07	To Balance b/d	2,140	1.4.07	By Balance b/d	37,140
	To General Ledger Adjustment A/c.		31.3.08	By General Ledger Adjustment A/c. :	
	Payment to creditors	25,000		Purchase (Credit)	30,000
	Discount received	300		By Balance c/d	100
	Bills payable accepted	4,000			
	Returns outwards (Note 1)	600			
	Transfer	200			
31.3.08	To Balance c/d	35,000			
		67,240			67,240

Working Notes : (1) Credit notes issued to customers Rs. 1,000 represents returns inwards. Similarly, credit notes received from suppliers Rs. 600 represents returns outwards.

Illustration 3

A business maintains accounts on self-balancing system for customers and suppliers. You are required to pass journal entries for "Control Account" purposes in respect of the following transactions for September, 1997 :

(a) Bills of exchange for Rs. 3,00,000 drawn on customers against credit sales;

(b) Bills of exchange for Rs. 2,50,000 accepted by customers earlier now endorsed to suppliers;

(c) An endorsed bill of exchange for Rs. 13,000 dishonoured; noting charges Rs. 150 incurred by holder in due course; endorsement was not "sans recourse";

(d) An acceptor of a bill of exchange of Rs. 12,000 retires the bill by paying Rs. 11,800. This bill was already endorsed to the supplier. The business contacts and pays the supplier by cheque on the due date.

Answer

Journal for September, 1997

	Particulars		Debit (Rs.)	Credit(Rs.)
1.	General ledger control a/c (in customers ledger)	Dr.	3,00,000	
	To Customers' ledger control a/c (in general ledger)			3,00,000
	(Being self-balancing control A/c entry for bills of exchange drawn on and accepted by customers)			
2.	Suppliers ledger control a/c (in general ledger)	Dr.	2,50,000	
	To General ledger control a/c (in suppliers' ledger)			2,50,000
	(Being self-balancing control entry for bills of exchange accepted by customers now endorsed to suppliers)			
3.	Customers ledger control a/c (in general ledger)	Dr.	13,150	
	General ledger control a/c (in supplier's ledger)	Dr.	13,150	
	To General ledger control a/c (in customers' ledger)			13,150
	To Suppliers' ledger control a/c (in general ledger)			13,150
	(Being entry to record dishonour of an endorsed bill of exchange, along with noting charges of Rs. 150)			
4.	(i) General ledger control a/c (in customer's ledger)	Dr.	12,000	
	To Customers' ledger control a/c (in general ledger)			12,000
	(Being retirement by a customer of an endorsed bill of exchange)			
	(ii) Supplier's ledger control a/c (in general edger)	Dr.	12,000	
	To General ledger control a/c (in suppliers ledger)			12,000
	(Being payment made to supplier on due date)			
	(iii) Customers' ledger control a/c (in general edger)	Dr.	12,000	
	General ledger control a/c (in suppliers' ledger)	Dr.	12,000	
	To Suppliers' ledger control a/c (in general ledger)			12,000
	To General ledger control a/c (in customers' ledger)			12,000
	(Being transfer of balance from customers' account to suppliers' account)			

Illustration 4

The following information is available from the book of a trader from January 1 to March 31, 2008:

(1) Total sales amounted to Rs. 60,000 including the sale of old furniture for Rs. 1,200

(book value Rs. 3,500). The total cash sales were 80% less than the total credit sales.

(2) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors and credit sales for the period. Debtors were allowed cash discount for Rs. 2,600.

(3) Bills Receivable drawn during three months totalled Rs. 6,000 of which bills amounting to Rs. 3,000 were endorsed in favour of suppliers. Out of these endorsed B/R, a B/R for Rs. 600 was dishonoured for non-payment, as the party became insolvent, his estate realising nothing.

(4) Purchases totalled Rs. 16,000 of which 10% was for cash.

(5) A cheque received from a customer for Rs. 6,000 was dishonoured; a sum of Rs. 500 is irrecoverable: Bad Debts written off in the earlier years realised Rs. 2,500.

(6) Sundry debtors, as on 1st January, 2008 stood at Rs. 40,000

You are required to show the Debtors' Ledger Adjustment Account in the General Ledger.

Solution

General Ledger
Debtors' Ledger Adjustment Account

Dr.		Rs.		Cr.	Rs.
To	Balance b/d	40,000	By	General Ledger Adjustment A/c:	
To	General Ledger Adjustment A/c:			Collection (Cash & Bank)	53,400
	Sales	49,000		Discount	2,600
	Sundry Creditors B/R Dishonoured	600		Bills Receivable	6,000
	Bank Cheque dishonoured	6,000		Bad Debts	1,100
			By	Balance c/d	32,500
		95,600			95,600

Note : If credit sales is Rs. 100, cash sales will be Rs. 20. Total credit sales shall be 5/6th of Rs. 58,800, i.e., Rs. 49,000.

Illustration 5

From the following particulars, prepare the relevant adjustment account as would appear in the General Ledger of Mr. Vasu for the month of March, 2008:

Date	Particulars
1	Purchase from Mr. X Rs. 2,000
2	Paid Rs. 1,600 after adjusting the initial advance in full to Mr. X.
13	Paid Rs. 1,000 to Mr. R towards the purchases made in February in full.
13	Paid advance to Mr. Y Rs. 3,000
14	Purchased goods from Mr. A Rs. 4,000
25	Returned goods worth Rs. 500 to Mr. A.
26	Settled the balance due to A at a discount of 10 per cent.
27	Goods purchased from Mr. Y Rs. 2,500 against advance paid on 13th.
28	Received at bank the advance from Mr. P paid on 28 February, 2008, Rs. 2,000.
29	Purchased from B Rs. 2,000.
30	Goods returned to Q Rs. 750. The goods were originally purchased for cash in February.

Solution

Creditors Ledger Adjustment Account

2008			Rs.	2008			Rs.
March 1	To	Balance (X. P.)	2,400	March 1	By	Balance (R) b/d:	1,000
March 31	To	General Ledger Adjustment A/c (In Bought Ledger)		March 31	By	G.L. Adjust A/c (in Bought Ledger)	
		Bank (X, R, Y & A)	8,750				
		Returns (A&Q)	1,250			Purchases	10,500
		Discount	350			Bank (Refund)	2,000
March 31	To	Balance c/d (B)	2,000	March 31	By	Balance c/d (Y,Q)	1,250
			14,750				14,750
April 1	To	Balance b/d (Y, Q)	1,250	April 1	By	Balance b/d (B)	2,000

Working Notes :

(1) Purchases:

1.3.2006	X	2,000
14.3.2006	A	4,000
27.3.2006	Y	2,500
30.3.2006	B	2,000
		10,500

(2) Payments:

2.3.2006	X	1,600
13.2.2006	R	1,000
13.2.2006	Y	3,000
26.3.2006	A Rs. 3,500 - 10%	3,150
		8,750

Illustration 6

From the following information prepare a Total Debtors Account as appearing in the General ledgers in the Books of M/s Shukla and Company.

Debit balance as on 1.7.2008, Rs.87,200; Credit balance as on 1.7.2008 in Debtors Account Rs.600.

Transactions during 6 months ended on 31.12.2008:

Total sales were Rs.94,000 including cash sales of Rs.4,000. Debtors whose balances were in credit were paid off Rs.600. Payments received by cheques from Debtors Rs.60,000. Payments received by cash from Debtors Rs.48,000. Payment received by bills receivable Rs.26,000.

Bills receivable received from Debtors were dishonoured for Rs.6,000 and noting charges of Rs.60 were paid. Cheques received from customers were dishonoured for Rs.800.

Out of bills receivable received and included in Rs.26,000 above, bills of Rs.5,000 were endorsed to suppliers.

Bad debts written-off during the period were Rs.1,000. Discount allowed for prompt payment were Rs.700 and bad debts written off in 2007 and now recovered from debtors amounted to Rs.900.

Interest debited for delay in payments were Rs.1,250. On 31.12.2008 provision for doubtful debts was created for Rs.2,100. M/s Trial & Co..s account appeared in Debtors Ledger and also in Creditors Ledger. The balance in Creditors Ledger was Rs.900 and the same was transferred to Debtors Ledger. Goods of Rs.2,760 were rejected by the customers.

Solution

In the General Ledger of M/s.Shukla & Company

Dr. **Total Debtors Account** Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
1.7.2008	To Balance b/f	87,200	1.7.2008	By Balance b/f	600
1.7.2008 to 31.12.2008	To Sales (Rs.94,000-Rs.4,000)	90,000	1.7.2008 to 31.12.2008	By Bank	60,000
”	To Cash	600	”	By Cash	48,000
”	To Bills Receivable (dishonoured)	6,000	”	By Bills receivable	26,000
”	To Bank (noting charges)	60	”	By Bad debts	1,000
”	To Bank (cheque dishonoured)	800	”	By Discount allowed	700
”	To Interest	1,250	”	By Total Creditors A/c-Transfer	900
			”	By Sales Return	2,760
			”	By Balance c/d	45,950
		1,85,910			1,85,910

Notes:

(1) Bad debts of 2007 recovered in 2008 will not appear in the Total Debtors Account. It should be credited to Profit and Loss Account.

(2) Bills Receivable of Rs.5,000 endorsed to suppliers has nothing to do with Total Debtors Account because at the time of endorsement Suppliers Account is debited and Bills Receivable Account is credited.

Illustration 7

(b) Ujju Enterprise furnishes you the following information for the period October to December, 2009. You are requested to draw up Debtors Ledger Adjustment account in the General Ledger:

(i) Total sales amounted to 2,20,000 including sale of old motor car for 10,000 (book value 5,000). Total credit sales were 80% higher than the cash sales.

(ii) Cash collection from debtors amounted to 60% of the aggregate of the opening debtors amounting to 40,000 and credit sales for the period. Debtors were allowed discount of 70,000.

(iii) Bills receivables drawn during the period totaled, 20,000 of which one bill of 5,000 was dishonoured for non-payment as the party became insolvent and his estate realized 50 paise in a rupee.

(iv) A sum of 3,000 was written off as bad debts, 7,000 was realized against bad debts written off in earlier years and provision of 6,000 was made for doubtful debts.

(4 Marks)

Solution :

In the book of Ujju Enterprise
Debtors ledger Adjustment Account in the General ledger

Dr.				Cr.			
2009				2009			
Oct 1	To	Balance b/d	40,000	Oct 1 to Dec 31	By	General Ledger Adjustment A/c Collection from debtors-bank [60% of (40,000 + 1,35,000)]	1,05,000
Oct 1 to Dec 31	To	General Ledger Adjustment A/c Sales (Refer W.N.)	1,35,000			Discount allowed	10,000
		Bills Receivables dishonoured	5,000			Bills receivables	20,000
						Bad debts (2,500 +3,000)	5,500
					By	Balance c/d	39,500
	Total		1,80,000			Total	1,80,000

Note: No entries are to be made:
(a) For 7,000 realised against bad debts written off in earlier years, and
(b) For provision of' 6,000 made for doubtful debts

Working Note:

Calculation of credit sales:

Total trade sales = 2,20,000 - 10,000 =	2,10,000
Less: Cash sales = 2,10,000 x $\frac{100}{(180+100)}$ =	75,000
Credit sales =	1,35,000

CHAPTER - 13

Financial Statement of Non-profit Organization

Illustration 1

From the following Trial Balance of Calcutta Club prepare an Income and Expenditure Account for the year ended on 31st March, 2008 and a Balance Sheet as on that date (all figures in Rupees) :

Particulars	Dr.	Cr.	Particulars	Dr.	Cr.
General Fund		30,000	Subscriptions received in advance		1,500
Cash in hand	2,000		Steward's servant's wages	5,800	
Cash at Bank	3,000		Extension of Club house	10,000	
Sundry Debtors	2,400		Printing and stationery	1,000	
Sundry Creditors		1,500	Law charges	500	
Loan @ 15% (01.07.2007)		20,000	Annual subscriptions		30,000
Furniture and Fixture	10,000		Card and Billiard room receipts		4,000
Club house	40,000		Washing of liveries and sundries	1,600	
Stock of Cigar (01.04.2007)	500		Wines, Cards and Cigars sold		5,000
Rent	6,000		Repairs to Club house and furniture	400	
Rates, Taxes and Insurance	600		Conversion expenses	1,000	
Secretary's Honorarium	1,200		Wine Cards and Cigars purchased	4,000	
Entrance Fees	1,200		Interest on Loan	1,000	
			TOTAL	**92,000**	**92,000**

Additional Information : (i) Subscriptions for 2007 – 08 outstanding Rs. 2,000; (ii) Write-off depreciation @ 10% p.a. on furniture and 2% on Club house including the extension; and (iii) Stock of Cigars Rs. 400; Wine Rs. 600 on 31.03.2008.

Solution :

Calcutta Club

Income and Expenditure Account for the year ended 31st March, 2008

Expenditure	Rs.	Income		Rs.
To Stock of Cigar	500	By Subscriptions	30,000	
To Wine, Cards & Cigars purchased	4,000	Add: Outstanding	2,000	32,000
To Rent	6,000	By Card & Billiard Room receipts		4,000
To Rates, Taxes & Insurance	600	By Wine, Cards & Cigars sold		5,000
To Secretary's Honorarium	1,200	By Closing Stock :		
To Entrance Fees	1,000	Cigars	400	
To Steward's and Servant's Wages	5,800	Wine	600	1,000
To Printing and Stationery	1,000			
To Law charges	500			
To Washing of liveries & sundries	1,600			
To Repairs to Club house and furniture	400			
To Conversion expenses	1,000			

To Interest on Loan	1,000			
Add : Outstanding	1,250	2,250		
To Depreciation on :				
Furniture @ 10% p.a.		1,000		
Cub house @ 2%		1,000		
To Excess of Income over Expenditure–Surplus		14,150		
		42,000		42,000

Balance Sheet of Calcutta Club as at 31st March, 2008

Liabilities		Rs.	Assets		Rs.
General Fund	30,000		Club House	40,000	
Add: Surplus	14,150	44,150	Add: Extension	10,000	
Sundry Creditors		1,500		50,000	
15% Loan		20,000	Less: Depreciation	1,000	49,000
Interest on Loan (outstanding)		1,250	Furniture & Fixture	10,000	
Subscriptions received in advance		1,500	Less: Depreciation	1,000	9,000
			Stock in hand :		
			Cigars	400	
			Wine	600	1,000
			Sundry Debtors		2,400
			Subscriptions due		2,000
			Cash at Bank		3,000
			Cash in hand		2,000
		68,400			68,400

Illustration 2

From the following information, you are required to prepare an Income and Expenditure Account for the year ended 31.3.2008 and a Balance Sheet as on that date :

(i) **Receipts and Payment Account for the year ended 31st March, 2008**

Receipts	Rs.	Payments	Rs.
To Balance b/d	7,200	By Rent	30,000
To Members' Joining Fees	35,000	By Electricity	12,400
To Annual Subscriptions	35,000	By Salaries	21,300
To Training Fees	76,600	By Training Expenses	40,200
To Interest on Investments	600	By Purchase of Investments	15,600
		By Short-term Deposits	10,000
		By Balance c/d	25,400
	1,54,900		1,54,900

(ii) On joining the society, members pay a non-returnable fee of Rs. 1,000 (before 1.4.2005, the fee had been Rs. 500). It had been found from experience that, on average, members remain in the society for five years. On this basis, one-fifth of each joining fee is credited to Income and Expenditure Account each year.

New members' statistics are :

During year ended 31st March	Number of New Members (No.)	Joining Fees in Suspense at 31.3.2007 (Rs.)
2004	20	2,000
2005	24	4,800
2006	32	19,200
2007	27	21,600
2008	35	Nil
		47,600

(iii) Annual subscriptions are due on 1st April each year. It is the society's policy to credit these to Income and Expenditure Account on an actual receipts basis, not on an accrual basis. However, if subscriptions are received in advance, the amounts are credited to Income and Expenditure Account for the year for which they are paid. Subscriptions received in advance included in the actual receipts for the year are as under : 2007-08 – Rs. 3,000; 2008-09 – Rs. 4,000.

(iv) The society has a permanent training room. Non-members can use the facilities on payment of a fee. In order to guarantee a particular facility, advance booking is allowed. Advance booking fees received before 31.3.2008 in respect of 2008-09 total Rs. 4,700. The corresponding amount paid up to 31.3.2007 in advance of 2007-08 was Rs. 3,250. Members can use the facilities free of charge.

(v) The club received interest on investments bought a number of years ago at a cost of Rs. 50,000 (current valuation Rs. 52,000). At the end of March, 2008, the club acquired further investments which cost Rs. 15,000 (current valuation Rs. 16,000) and at the same time, placed Rs. 10,000 in a short-term deposit account.

Solution :

Dover Lane Music Society
Income and Expenditure Account for the year ended 31st March, 2008

Expenditure	Rs.	Income		Rs.
To Rent	30,000	By Members' Joining Fees (Note 2)		23,200
To Electricity	12,400	By Annual Subscriptions (Note 4)		34,500
To Salaries	21,300	By Training Fees (Note 5)	75,150	
To Excess of Income over Expenditure	29,550	Less: Training Expenses	40,200	34,950
		By Interest on Investments		600
	93,250			93,250

Balance Sheet of Dover Lane Music Society as at 31st March, 2008

Liabilities		Rs.	Assets	Rs.
Capital Fund :			Investments at cost (Current valuation Rs. 68,000)	65,600
Opening balance (Note 1)	3,350		Short-term Deposit	10,000
Add: Excess of Income over Expenditure	29,550	32,900	Cash and Bank	25,400
Joining Fees in Suspense (Note 3)		59,400		
Subscriptions in Advance		4,000		
Joining Fees in Advance		4,700		
		1,01,000		1,01,000

Working Notes :

(1) Balance Sheet as on 1st April, 2007

Liabilities	Rs.	Assets	Rs.
Capital Fund (Balancing figure)	3,350	Investments	50,000
Joining Fees in Suspense	47,600	Cash and Bank	7,200
Subscriptions in Advance	3,000	Training Fees in Advance	3,250
	57,200		57,200

(2) Members' Joining Fees Credited to Income and Expenditure Account

Year ended	Amount Received (Number of New Members × Joining Fees)	Total Rs.
31.3.2004	20 × Rs. 500	10,000
31.3.2005	24 × Rs. 500	12,000
31.3.2006	32 × Rs. 1,000	32,000
31.3.2007	27 × Rs. 1,000	27,000
31.3.2008	35 × Rs. 1,000	35,000
		1,16,000

1/5th of Rs. 1,16,000 is to be credited to Income and Expenditure Account, i.e., Rs. 1,16,000 / 5 = Rs. 23,200.

(3) Joining Fees in Suspense at 31.3.2008	**Rs.**
Joining fees in suspense at 31.3.2007	47,600
Add: Joining fees received during the year ended 31.3.2008	35,000
	82,600
Lees: Joining fees credited to Income and Expenditure Account	23,200
	59,400

(4) Annual Subscriptions Credited to Income and Expenditure Account

	Rs.
Annual subscriptions received	35,500
Add: Subscriptions received in advance before 1.4.2007	3,000
	38,500
Less: Subscriptions received in advance for 2008–09	4,000
	34,500

(5) Training Fees Credited to Income and Expenditure Account

	Rs.
Training fees received	76,600
Add: Training fees received in advance before 1.4.2007	3,250
	79,850
Less: Training fees received in advance for 2008–09	4,700
	75,150

Illustration 3

The assets and liabilities of the Barley Sports Club at 31st December, 2006 were as follows :

	Rs.		Rs.
Pavilion at cost less depreciation	13,098	Bar creditors	427
Bank and cash	1,097	Loans to sports club	1,080
Bar stock	291	Accruals :	
Bar Debtors	231	Water	13
Rates prepaid	68	Electricity	130
Contributions owing to sports club by users of sports club facilities	778	Miscellaneous	75
Contribution paid in advance to sports club by users of sports club facilities	398	Loan interest	33

The treasurer has analysed the cash book for the year, and produced the following receipts and payments account for the year ended 31st December, 2007 :

Receipts	Rs.	Payments	Rs.
Opening balance	1,067	Bar purchases	2,937
Bar sales	4,030	Repayment of loan capital	170
Telephone	34	Rent of ground	79
Contribution from users of club facilities	1,780	Rates	320
Socials	177	Water	38
Miscellaneous	56	Electricity	506
		Insurance	221
		Repairs to equipment	326
		Expenses of socials	67
		Maintenance of ground	133
		Wages of groundmen	140
		Telephone	103
		Bar sundries	144
		Loan interest	97
		Miscellaneous	163
		Closing balance	1,700
	7,144		7,144

The treasurer also provides the following information as at 31st December, 2007 :

	Rs.		Rs.
Bar stock	394	Creditors for bar sundries	65
Bar Debtors	50	Contribution by users of sports club facilities -	
Bar Creditors	901	owing to sports club	425
Rent prepaid	16	paid in advance to sports club	657
Water charges owing	23	Rates prepaid	76
Electricity owing	35	Depreciation on the pavilion for the year	498

You are required :

(a) Ascertain he balance on the accumulated fund as at 1st January, 2007;

(b) Prepare a statement showing the gross and net profit earned by the bar; and

(c) Prepare an Income and Expenditure Account for the year ended 31st December, 2007 and a Balance Sheet as at that date.

Solution :

Balance Sheet of Barley Sports Club as at 1st January, 2007

Liabilities	Rs.	Assets	Rs.
Accumulated Fund (balancing figure)	13,377	Pavilion at cost	13,098
Bar Creditors	427	Bar Stock	291
Loan to Sports Club	1,080	Bar Debtors	231
Outstanding Expenses :		Rates Prepaid	68
Water	13	Contribution owing to Sports Club	778
Electricity	130	Bank & Cash	1,067
Miscellaneous	75		
Loan interest	33		
Contribution received in advance	398		
	15,533		15,533

Dr. Bar Trading Account for the year ended 31st December, 2007 Cr.

Particulars	Rs.	Particulars	Rs.
To Bar Stock	291	By Sales (Notes 2)	3,849
To Bar Purchases (Note 1)	3,411	By Closing Stock (bar)	394
To Gross Profit c/d	541		
	4,243		4,343
To Bar Sundries (Note 3)	209	By Gross Profit b/d	541
To Net Profit (transf. to Income & Expenditure A/c.)	332		
	541		541

Barley Sports Club
Income and Expenditure Account for the year ended 31st December, 2007

Expenditure		Rs.	Income	Rs.
To Rent of Ground	79		By Bar Net Profit	332
Less: Prepaid	16	63	By Socials	177
To Rates (Note 4)		312	By Miscellaneous	56
To Water (Note 5)		48	By Telephone	34
To Electricity (Note 6)		411	By Contribution from Users of Club	
To Insurance		221	Facilities (Note 9)	1,168
To Repairs to Equipment		326	By Excess of Expenditure over Income	707
To Expenses of Social		67		
To Maintenance of Ground		133		
To Wages of Groundsmen		140		
To Telephone		103		
To Interest on Loan (Note 7)		64		
To Miscellaneous (Note 3)		88		
To Depreciation on the Pavilion		498		
		2,474		2,474

Balance Sheet of Barley Sports Club as at 31st December, 2007

Liabilities		Rs.	Assets		Rs.
Accumulated Fund	13,377		Pavilion at cost	13,098	
Less: Excess of Expenditure over Income	707	12,670	Less: Depreciation	498	12,600
Bar Creditors		901	Bar Stock		394
Loan to Sports Club	1,080		Bar Debtors		50
Less: Paid during the year	170	910	Rates Prepaid		76
Outstanding Expenses :			Contribution Owing to Sports Club		425
Water		23	Rent Prepaid		16
Electricity		35	Bank and Cash		1,700
Creditors for Bar Sundries		65			
Sundries Contribution Received in Advance		657			
		15,261			15,261

Working Notes :

Dr. (1) Bar Creditors Account Cr.

Date	Particulars	Rs.	Date	Particulars	Rs.
?		2,937	1.1.07	By Balance b/d	427
31.12.07	To Balance c/d	901	31.12.07	By Purchases (Balancing figure)	3,411
		3,838			3,838

Dr.	(2) Bar Debtors Account				Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
1.1.07	To Balance c/d	231	?	By Bank	4,030
31.12.07	To Sales (balancing fig)	3,849	31.12.07	By Balance c/d	50
		4,080			4,080

Dr.	(3) Creditors for Bar Sundries Account				Cr.
Date	Particulars	Rs.	Date	Particulars	Rs.
?	To Bank	144	?	By Bar Trading A/c.	209
31.12.07	To Balance c/d	65		By Balance c/d	
		209			209

Working Notes :

(4) Rates	Rs.	(5) Water	Rs.
Paid during the year	320	Paid during the year	38
Less: Prepaid in 2006	68	Less: Outstanding of 2006	13
	388		25
Less: Prepaid in 2007	76	Add: Outstanding of 2007	23
	312		48

(6) Electricity	Rs.	(7) Interest on loan	Rs.
Paid during the year	506	Paid during the year	97
Less: Outstanding of 2006	130	Less: Outstanding of 2006	33
	376		64
Less: Outstanding of 2007	35		
	411		

(8) Miscellaneous	Rs.	(9) Contribution	Rs.
Paid during the year	163	Received during the year	1,780
Less: Outstanding of 2006	75	Less: Outstanding for 2006	778
	88		1,002
Less: Outstanding of 2007	--	Add: Contribution for 2007 still due	425
	88		1,427
		Add: Contribution for 2007 recd. in Advance in 2006	398
			1,825
		Less: Contribution received in advance For 2008	657
			1,168

Illustration 4

From the following balances and particulars of Republic College prepare Income & Expenditure Account for the year ended March, 2008 and a Balance Sheet as on the date :

	Rs.	Rs.
Seminars & Conference Receipts		4,80,000
Consultancy Receipts		1,28,000
Security Deposit-Students		1,50,000
Capital fund		16,06,000
Research Fund		8,00,000
Building Fund		25,00,000
Provident Fund		5,10,000
Tuition Fee received		8,00,000
Government Grants		5,00,000
Donations		50,000
Interest & Dividends on Investments		1,85,000
Hostel Room Rent		1,75,000
Mess Receipts (Net)		2,00,000
College Stores-Sales		7,50,000
Outstanding expenses		2,25,000
Stock of-stores and Supplies	3,00,000	
Purchases-Stores & Supplies	8,00,000	
Salaries-Teaching	8,50,000	
Research	1,20,000	
Scholarships	80,000	
Students Welfare expenses	38,000	
Repairs & Maintenance	1,12,000	
Games & Sports Expenses	50,000	
Misc. Expenses	65,000	
Research Fund Investments	8,00,000	
Other Investments	18,50,000	
Provident Fund Investment	5,10,000	
Seminar & Conference Expenses	4,50,000	
Consultancy Expenses	28,000	
Land	1,00,000	
Building	16,00,000	
Plant and Machinery	8,50,000	
Furniture and Fittings	6,00,000	
Motor Vehicle	1,80,000	
Provision for Depreciation		
Building		4,80,000
Plant & Equipment		5,10,000
Furniture & Fittings		3,36,000

Cash at Bank	6,42,000	
Library	3,60,000	
	1,03,85,000	1,03,85,000

Adjustments:

		Rs.
(1)	Materials & Supplies consumed:	
	Teaching	50,000
	Research	1,50,000
	Students Welfare	75,000
	Games or Sports	25,000
(2)	Tuition fee receivable from Government for backward class Scholars	80,000

(3) Stores selling prices are fixed to give a net profit of 10% on selling price

(4) Depreciation is provided on straight line basis at the following rates:

(1)	Building	5%
(2)	Plant & Equipment	10%
(3)	Furniture & Fixtures	10%
(4)	Motor Vehicle	20%

Solution

Republic College
Income and Expenditure Account
for the year ending 31st March, 2008

Expenditure	Rs.	Rs.	Income	Rs.	Rs.
To Salaries: Teaching		8,50,000	By Tuitions & other fee		8,80,000
Research		1,20,000	" Material & Supplies Consumed		
" Govt. Grants		5,00,000			
Teaching		50,000	" Income from		
Research		1,50,000	Investments		1,85,000
			" Hostel room Rent		1,75,000
" Repairs & Maintenance		1,12,000	" Mess Receipts		2,00,000
" Sports & Games Exp.			" profit-stores sales		75,000
Cash	50,000		" Seminar and Conferences		
Materials	25,000	75,000	Income	4,80,000	
			Less : Exp.	4,50,000	30,000
To Students Welfare Exp.					
Cash	38,000		" Consultancy charges :		
Materials	75,000	1,13,000	Income	1,28,000	
			Less : Exp.	28,000	

"	Misc. Expenses	65,000			1,00,000
"	Scholarships	80,000	"	Donations	50,000
"	Depreciation				
	Building	80,000			
	Plant & Equipment	85,000			
	Furniture	60,000			
	Motor Vehicle	36,000			
"	Excess of Income over				
	Expenditure	3,19,000			
		21,95,000			21,95,000

Republic College
Balance Sheet as on 31st March, 2008

Liabilities	Rs.	Rs.	Assets	Rs.	Rs.
			Fixed Assets:		
Capital Fund			Land		1,00,000
Opening balance	16,06,000		Building Cost	16,00,000	
Add : Excess of Income					
over Expenditure	3,19,000	19,25,000	Less: Dep.	5,60,000	
Other Funds					10,40,000
Research Fund		8,00,000	Equipment		
Building Fund		25,00,000	Cost	8,50,000	
			Less : Dep.	5,95,000	2,55,000
Current Liabilities :					
Outstanding Expenses		2,25,000	Furniture & Fittings:		
Provident Fund		5,10,000	Cost	6,00,000	
Security Deposit		1,50,000	Less : Dep.	3,96,000	
					2,04,000
			Motor Vehicles		
			Cost :	1,80,000	
			Less : Dep.	36,000	
					1,44,000
			Library		3,60,000
			Investments:		
			Capital Fund Investments		18,50,000
			Research Fund Investment		8,00,000
			P.F. Investment		5,10,000
			Stock :		
			Material & Supplies		1,25,000
			Grants receivable		80,000
			Cash in hand & at Bank		6,42,000
		61,10,000			61,10,000

Working Notes :

(1) Material & Supplies-Closing Stock

Opening Stock		3,00,000
Purchases		8,00,000
		11,00,000
Less : Cost of Sales	6,75,000	
Consumed	3,00,000	9,75,000
Balance		1,25,000

(2) Provisions for Depreciation

	Building	Plant & Equipment	Furniture & Fitting
	Rs.	Rs.	Rs.
Opening Balance	4,80,000	5,10,000	3,36,000
Addition	80,000	85,000	60,000
Closing Balance	5,60,000	5,95,000	3,96,000

Illustration 5

Noida School maintains separate building fund. As on 31.3.2007, balance of building fund was Rs. 10,00,000 and it was represented by fixed deposit (15% per annum) of Rs.6,00,000 and current account balance of Rs.4,00,000. During the year 2007-08, the school collected as donations towards the building fund Rs.5,60,000 and transferred 40% of developmental fees collected Rs.22,56,500 to building fund. Capital work progress as on 31st March, 2007 was Rs.8,25,000 for which contractors' bill upto 75% was paid on 14.4.2008. The extension of building was finished on 31.12.2007 costing Rs.7,25,000 for which contractors' bill was fully met. It was decided to transfer the cost of completed building (Rs.15,50,000) to the corresponding asset account.

You are required to pass journal entries to incorporate the above transactions in the books of Noida School for the year 2007-08 and show the trial balance of building fund ledger.

Solution

Journal Entries for Building Fund Ledger

			Rs.	Rs.
(1)	Bank A/c	Dr.	5,60,000	
	To Building fund A/c			5,60,000
	(On collection of donations)			

(2)	Bank A/c	Dr.	9,02,600	
	To Building fund A/c			9,02,600
	(40% of the development fees directly transferred to building fund)			
(3)	Fixed deposit A/c	Dr.	90,000	
	To Interest A/c			90,000
	(On accrual of interest)			
(4)	Interst A/c	Dr.	90,000	
	To Building fund			90,000
	(Interest accrued on fixed deposit transferred)			
(5)	Capital work in progress A/c	Dr.	7,25,000	
	To Contractors' A/c			7,25,000
	(Work completed and certified during the year)			
(6)	Contractors' A/c	Dr.	13,43,750	
	To Bank A/c			13,43,750
	(Payments made during the year)			
(7)	Building A/c	Dr.	15,50,000	
	To Bank A/c			15,50,000
	(Transfer of completed buildings to Asset A/c)			
(8)	Building Fund A/c	Dr.	15,50,000	
	To General Fund A/c			15,50,000
	(Corresponding building fund transferred)			

Trial Balance of Building Fund as on 31st March, 2008

	Dr. Rs.	Cr. Rs.
Building Fund		10,02,600
Contractors' A/c		2,06,250
Fixed Deposit A/c	6,90,000	
Current A/c	5,18,850	
	12,08,850	12,08,850

Illustration 6

Tile Young Trust runs a Charitable Hospital and a Dispensary. The following information is available for the year ended 31st March, 2009 from the books of accounts

	Dr	Cr.
Capital fund		9,00,000
Donations received during the year		6,00,000
Recovery of the rent		2,75,000
Fee received from patients		3,00,000
Recovery of food supplies		1,40,000
Surgical equipments	4,55,000	
Building & operation theatres	3,20,000	
Consumption in the hospital of:		
Medicines	1,20,000	
Food stuff	90,000	
Chemicals	30,000	
Closing stock of hospital		
Medicines	20,000	
Food stuff	4,000	
Chemicals	1,000	
Sales of medicines (dispensary)		3,10,000
Opening stock of medicines (dispensary)	55,000	
Purchase of medicines (dispensary)	3,00,000	
Salaries.		
Administrative staff	30,000	
Doctors/Nurses	1,50,000	
Assistant at the dispensary	15,000	
Electricity & power charges:		
Hospital	1,05,000	
Dispensary	2,000	
Furniture & equipments	80,000	
Ambulance	30,000	
Postage & telephone expenses less recovery	26,000	
Subscription to medical journals	21,000	
Ambulance maintenance charges less recovery		800
Consumption of bed sheets	90,000	
Fixed deposits made on 01-04-2008 for three years at interest @ 11 % p.a.	5,00,000	
Cash & bank balances	41,300	
Sundry debtors (dispensary)	60,500	
Sundry creditors (dispensary)		41,000
Remuneration to trustees, trust office expenses etc.	21,000	

Additional Information:

(a) The dispensary supplied medicines to the hospital worth 60,000, for which no adjustment was made in the books.

(b) The closing stock of the medicines was 40,000 at the dispensary.

(c) The stock of medicines on 31st March, 2009 at the hospital included 4,000 worth of medicines belonging to the patients, which has not been considered while arriving at the figure of consumption of medicines.

(d) The donations were received towards Corpus of the Trust.

(e) On 15th August 2008, surgical equipments were donated having market value of 40,000.

(f) The hospital is to receive the grant of 25% of the amount spent on treatment of the poor patients from the Red Cross Society. Such expenditure was 50,000.

(g) Out of the fee recovered from the patients, 10% is to be given to the Specialist retained by the Hospital.

(h) Depreciation on the assets on the closing balances.
Surgical Equipments @ 20%
Building@ 5%
Furniture & Equipments @ 70%
Ambulance @ 30%

You are required to prepare:

(i) Income and Expenditure Account of the Hospital, Dispensary and Trust.
(ii) Statement of Affairs of the Trust for the year ended 31st March, 2009.

Bonus issue was made some years later to the purchase of initial 500 equity shares.

Income & Expenditure Account of Dispensary
for the year ended 31st March, 2009

Particulars	Amount	Particulars	Amount
To Opening stock of medicines	55,000	By Sales of medicine	3,10,000
To Purchase of medicines	3,00,000	By Supply of medicines to hospital	60,000
To Salaries to assistants	15,000	By Closing stock of medicines	40,000
To Electricity & power charges	2,000		
To Surplus transferred to trust income & expenditure account (Bal. Fig)	38,000		
	4,10,000		4,10,000

Income & Expenditure Account of Hospital
for the year ended 31st March, 2009

Particulars		Amount	Particulars	Amount
To Consumption of:			By Fees received from patients	3,00,000
Medicines (W.N.1)	1,84,000		By Recovery for rent	2,75,000
Food stuff	90,000		By Recovery of food supplies	1,40,000
Chemicals	30,000	3,04,000	By Ambulance maintenance charges less recovery	800
To Salaries:				
Administrating staff	30,000		By Grant receivable from Red Cross Society (25% of - 50,000)	12,500
Doctors & nurses	1,50,000	1,80,000		
To Electricity & power charges		1,05,000	By Deficit transferred to trust income & expenditure a/c.	1.33,700
To Subscription to medical journals		21,000		
To Consumption of bed sheets		90,000		
To Retainer ship of specialists outstanding (W.N.2)		30,000		
To Depreciation on:				
Surgical equipments	99,000			
Building	16,000			
Furniture & fixtures	8,000			
Ambulance	9,000	1,32,000		
		8,62,000		8,62,000

Income & Expenditure Account of the Young Trust
for the year ended 31st March, 2009

Particulars	Amount	Particulars	Amount
To Deficit from hospital	1,33,700	By Surplus from dispensary	38,000
To Postage & telephone expenses less recovery	26,000	By Interest accrued on fixed deposits	55,000
To Remuneration to trustees, trust office expenses etc	21,000	By Deficit (Excess of expenditure over income)	87,700
	1 ,80,700		1 ,80,700

Balance Sheet
as at 31.03.2009

Liabilities		Amount	Assets		Amount
Capital fund:			Building	3,20,000	
Opening balance	9,00,000		Less: Depreciation	16,000	3,04,000
Add: Donations:			Surgical equipment	4,55,000	
Cash	6,00,000		Add: Donation	40,000	
Surgical equipment	40,000			4,95000	
	15,40,000		Less Depreciation	99,000	3,96,000
Less: Deficit	87,700	14,52,300	Furniture	8,000	
Sundry creditors (dispensary)		41,000	Less: Depreciation	8,000	72,000
Outstanding retainer ship			Ambulance	30,000	
to specialist (W.N. 2)		30,000	Less: Depreciation	9,000	21,000

		Stock:		
		Medicines:		
		Dispensary	40,000	
		Hospital	16,000	
		Food stuff		
		Hospital (20,000 - 4,000)	4,000	
		Chemicals	1,000	61,000
		Sundry debtors (Dispensary)		60,500
		Grant receivable from		
		Red Cross Society		12,500
		fixed deposits		5,00,000
		Interest accrued		55,000
		Cash & bank balance		41,300
	15,23,300			15,23,300

Working Notes:

1. **Consumption of medicines in hospital:**

Medicines	1,20,000
Supplies received from dispensary	60,000
Medicines in stock belonging to patients	4,000
Total	1,84,000

2. **Calculation of fee given to specialist:**
   10% of 3,00,000 = 30,000

Note: It is presumed that surgical equipment donated on 15th August 2008 was not included in the closing balance of surgical equipments as on 31st March 2009.

Illustration 7

(a) On the basis of the following information's prepare Income and Expenditure Account for the year ended 31st March, 2010 :

Receipts and Payments Account for the year ended 31st March, 2010

Receipts	Rs.	Payments	Rs.
To Cash in hand (opening)	1,300	By Salaries	2,58,000
To Cash at bank (opening)	3,850	By Rent	71,500
To Subscriptions	4,94,700	By Printing & stationery	3,870
To Interest on 8%		By Conveyance	10,600
Government bonds	4,000	By Scooter purchased	50,000
To Bank interest	160	By 8% Government bonds	1,00,000
		By Cash in hand (closing)	840
		By Cash at bank (closing)	9,200
	5,04,010		5,04,010

(i) Salaries paid includes Rs. 6.000 paid in advance for April, 2010. Monthly salaries paid were Rs. 21,000.

(ii) Outstanding rent on 31st March, 2009 and 31st March, 2010 amounted to Rs. 5,500 and Rs. 6,000 respectively.

(iii) Stock of printing and stationery material on 31st March, 2009 was Rs. 340, it was Rs. 365 on 31st March, 2010.

(iv) Scooter was purchased on 1st October, 2009. Depreciation @ 20% per annum is to be provided on it.

(v) Investments were made on 1st April, 2009.

(vi) Subscriptions due but not received on 31st March, 2009 and 31st March, 2010 totaled Rs. 14,000 and Rs. 12,800 respectively. On 31st March, 2010, subscriptions amounting to Rs. 700 had been received in advance for April, 2010.

Solution :

(a) Income and Expenditure A/c for the year ended 31st march, 2010

Expenditure	Rs	Income	Rs
To Salaries (W.N. 1)	2,52,000	By Subscription (W.N. 6)	4,92,800
To Rent (W.N. 2)	72,000	By Interest on 8%	
To Printing and stationery (W.N. 3)	3,845	Government bonds (W.N. 5)	8,000
To Conveyance	10,600	By Bank Interest	160
To Depreciation on Scooter (W.N. 4)	5,000		
To Surplus i.e. excess of Income over expenditure	1,57,515		
	5,00,960		5,00,960

Working Notes:

		Rs.
1.	Salaries paid	2,58,000
	Less: Salary paid in advance for April, 2010	6,000
	Salaries for the year	2,52,000
2	Rent paid	71,500
	Add: Outstanding rent as on 31.3.2010	6,000
		77,500
	Less: Outstanding rent as on 31.3.2009	5,500
	Rent for the year 2009-2010	72,000

3.	Printing and stationery		3,870
	Add: Stock as on 31.3.2009		340
			4,210
	Less: Stock as on 31.3.2010		365
	Printing and stationery consumed during the year 2009-2010		3,845

4 Deprecation on scooter = Rs. 50,000 x 20/100 x 6/12 = Rs. 5,000

5.	Interest on Government bonds received		4,000
	Add: Interest due but not received as on 31.3.2010		4,000
	Interest income for the year 2009-2010		8,000

6.	Subscription received		4,94,700
	Add: Accrued subscription as on 31.3.2010		12,800
			5,07,500
	Less: Accrued Subscription as on 31.3.2009	14,000	
	Unearned subscription for April, 2010	700	(14,700)
	Income for the year 2009-2010		4,92,800

CHAPTER - 14

Miscellaneous Problems

Illustration 1

(i) A and B are partners in a firm sharing profits and losses in the ratio of 3 : 2. Their capitals are Rs. 60,000 and Rs. 40,000 respectively. They admit C as a new partner who will get 1/6th, share in the profit of the firm. C brings in Rs. 25,000 as his capital. Find out the amount of goodwill on the basis of the above information.

(ii) From the following, calculate the cash price of the asset.'

	Rs.
Hire purchase price of the asset	50.000
Down payment	10,000
Four annual instalments at the end of each year	10.000
Rate of interest	5%pa

(iii) Mr. X purchased 1.000, 6% Government Bonds of Rs. 100 each on 31st January, 2009 at Rs. 95 each. Interest is payable on 30th June and 31st December. The price quoted is cum interest. Journalise the transaction.

(iv) Swammathan owed to Subramanium the following sums:

Rs. 5,000 on 20th January, 2009
Rs. 8.000 on 3rd March, 2009
Rs. 6.000 on 5th April, 2009
Rs 11,000 on 30th April, 2009
Ascertain the average due date.

(v) A company acquired a machine on 1.4.2006 for Rs. 5,00,000. The company charged depreciation upto 2008-09 on straight line basis with estimated working life of 10 years and scrap value of Rs. 50,000. From 2009-10, the company decided to change depreciation method at 20% on reducing balance method Compute the amount of depreciation to be debited to Profit and Loss Account for the year 2009-10.

(vi) An unquoted long-term investment is carried in the books at cost of Rs. 2 lacs. The published accounts of unlisted company received in May. 2009 showed that the company has incurred cash tosses with decline market share and the long-term investment may not fetch more than Rs. 20,000. How you will deal with it in the financial statement of investing company for the year ended 31.3.2009?

(vii) In the absence of a partnership deed, what will be your decision in disputes amongst partners regarding the following matters:

(a) Profit sharing ratio;

(b) Interest rate, at which interest is to be allowed to a partner. on loan given to the firm by a partner

(viii) According to Accounting Standard 9, when revenue from sales should be recognised?

(ix) In January, 2010 a firm took an insurance policy for Rs. 60 lakhs to insure goods in its godown against fire subject to average clause. On 7th March, 2010 a fire broke out destroying goods costing Rs. 44 lakhs. Stock in the godwon was estimated at Rs. 80 lakhs. Compute the amount of insurance claim.

(x) On 1st April, 2009 a car company sold to Arya Bros, a motor car on hire-purchase basis. The total hire puchase price was Rs. 4,60,000 with down payment of Rs. 1,60,000. Balance amount was to be paid in three annual instalments of Rs. 1,00,000 each. The first instalment payable on 31st March, 2010 The cash price of the car was Rs. 4,00,000.

How will Arya Bros. account for interest over three accounting years assuming books of accounts are closed on 31st March every year (10 x 2 = 20 Marks)

Solution :

(i) Calculation of Goodwill

C brings capital for 1J6tr share in profit	=	Rs. 25,000
Therefore total capital of the firm	=	Rs. 25,000 x 6 = Rs. 1,50,000
Capital of old partners should be	=	Rs. 1,50,000 - Rs. 25,000 = Rs. 1,25,000
Actual combined capital of old partners	=	Rs. 60,000 + Rs. 40,000 = Rs.1,00,000
So, the goodwill of the firm	=	Rs. 1,25,000 - Rs.1,00,000 = Rs. 25,000

(ii) Calculation of cash price of the asset

Number of instalments	**Closing balance**	**Amount of instalment**	**Total**	**Interest 5/105**	**Opening balance**
4	0	10,000	10,000	476	9,524
3	9,524	10,000	19,524	930	18,594
2	18,594	10,000	28,594	1,362	27,232
1	27,232	10,000	37,232	1,773	35,459

Cash price of the asset = Down payment + Rs.35,459
= Rs 10,000 + Rs. 35,459
= Rs. 45,459

(iii) **Journal Entries**

Date	**Particulars**		**Amount (Dr.) Rs.**	**Amount (Cr.) Rs.**
31st Jan, 2009	Investment A/c	Dr.	94,500	
	Interest A/c (Rs. 100,000 x 6/100 x ½)	Dr.	500	
	To Bank A/c			95,000
	(Being purchase of 1,000 6% Government bonds of Rs. 100 each at Rs. 95 each cum interest)			

(iv) **Calculation of Average due date taking 20th January as the base date**

Due Date	**Amount Rs.**	**No. of days from 20th January**	**Product**
20th January	5,000	0	0
3rd March	8,000	42	3,36,000
5th April	6,000	75	4,50,000
30tr April	11,000	100	11,00,000
	30,000		18,86,000

Average due date = 20th January + $\frac{\text{Total Product}}{\text{Total Amount}}$

= 20th January + $\frac{18,86,000}{30,000}$

= 20th January, 2009 + 63 days (approx)

= 24th March, 2009

(v) Annual depreciation charged by the company up to 2008·09

$$= \frac{\text{Cost price of the machine· Scrap value}}{\text{Useful life of the machine}}$$

$$= \frac{\text{Rs. 5,00,000 - Rs. 50,000}}{10} = \text{Rs.45 000}$$

WDV of machine at the end of 2008-09 by Straight Line Method (SLM)

= Rs.5,00.000 - (Rs.45 000 x 3) = RS.3.65.000

	Cost/ WDV at the beginning of the year Rs,		**Depreciation Rs,**	**WDV at the end of the year Rs.**
2006-07	5,00,000	5,00,000 x 20%	1,00,000	4,00,000
2007-08	4,00,000	4,00.000 x 20%	80,000	3,20,000
2008-09	3,20,000	3,20,000 x 20%	64,000	256,000
			2,44,000	
2009-10	2,56,000	2,56,000 x 20%	51.200	2,04,800

Depreciation to be charged in 2009-2010

	Rs.
Book value of the machine as per SLM as on 2008-09	3,65,000
Less: Book value of the machine as per RBM as on 2008·09	(2,56,000)
	1,09,000
Add: Depreciation for the year 2009-10 as per RBM	51,200
Total depreciation debited to Profit and Loss account in the year 2009-10	1,60,200

(vi) As per para 32 of AS 13 Accounting for Investments, investment classified as long term investments should be carried in the financial statements at cost. However, provision for diminution shall be made to recognise a decline, other than temporary in the value of the investments, such reduction being determined and made for each investment individually, As per para 17 of the standard, indicats of the value of an investment are obtained by reference to its market value the investee's assets and results and the expected cash flows from the investment.

The facts of given case clearly suggest that there is decline in the market share of the company and the investment will not fetch more than Rs,20.000, Therefore, the provision of Rs, 1,80.000 should be made to reduce the carrying amount of long term investment to Rs,20,000 in the financial statements for the year ended 31 SI March. 2009,

(vii) In the absence of a partnership deed

(a) The partners will share profits/losses equally; and

(b) Interest @ 6% per annum is to be paid on the loan advanced to the firm by a partner

(viii) As per para 11 of AS 9 'Revenue Recognition. revenue from sales should be recognised only when requirements as to performance are satisfied provided that at the time of performance it is not unreasonable to expect ultimate collection. These requirements can be given as follows:

(i) the seller of goods has transferred to the buyer the property in the goods for a price or all significant risks and rewards of ownership have been transferred to the buyer and the seller retains no effective control of the goods transferred to a degree usually associated with ownership: and

(ii) no significant uncertainty exists regarding the amount of the consideration that will be derived from the sale of the goods.

(ix) $\text{Amount of insurance claim} = \text{Amount of loss due to fire} \times \dfrac{\text{Amount of insurance policy}}{\text{Total stock in the godown}}$

$= \text{Rs.44 lakhs} \times \dfrac{\text{Rs.60 lakhs}}{\text{Rs.80 lakhs}} = \text{Rs. 33 lakhs}$

(x) Total interest on hire purchase transactions= Rs.4,60,000 – Rs 4,00,000 = Rs. 60,000

As balance payment is made in three equal instalments, so interest is to be allocated in the ratio of 3:2:1

Therefore, interest for Ist year = Rs.60,000 x 3/6 = Rs. 30,000
IInd year = Rs. 60,000 x 2/6 =Rs. 20,000
IIIrd year = Rs.60,000 x 1/6= Rs.10,000

Illustration 2

Answer the following:

(a) Weak Ltd. acquired the fixed assets of Rs. 100 lakhs on which it received the grant of Rs. 10 lakhs. What will be the cost of the fixed assets as per AS 12 and how it will be disclosed in the financial statements?

(b) During the current year 2009-10 M/s L & C Ltd. made the following expenditure relating to its plant and machinery:

	Rs.
General repairs	4,00,000
Repairing of electric motors	1,00,000
Partial replacement of parts of machinery	50,000
Substantial improvements to the electrical wiring system which will increase efficiency of the plant and machinery	10,00,000

What amount should be capitalised according to AS 10?

(c) What are the advantages of pre-packaged accounting software?

(d) Raw materials inventory of a company includes certain material purchased at Rs 100 per kg. The price of the material is on decline and replacement cost of the inventory at the year end is Rs. 75 per kg. It is possible to convert the material into finished product at conversion cost of Rs. 125.

Decide whether to make the product or not to make the product, if selling price is (i) Rs. 175 and (ii) Rs. 225. Also find out the value of inventory in each case.

(4 x 4 = 16 Marks)

Solution :

(a) Paragraphs 8 and 14 of AS 12 'Accounting for Government Grants' deal with the presentation of government grants related to specific fixed assets. It prescribes two different methods for recognition of a government grant. In the first method, Government grants related to specific fixed assets should be presented in the balance sheet by showing the grant as a deduction from the gross value of the assets concerned in arriving at their book value. Hence in the given case, fixed assets should be presented at Rs. 90 lakhs (Rs. 100 lakhs less Rs. 10 lakhs) in the balance sheet of Weak Ltd.

Under the second method, government grants related to depreciable fixed assets may be treated as deferred income which should be recognised in the profit and loss statement on a systematic and rational basis over the useful life of the asset, i.e. such grants should be allocated to income over the periods and in the proportions in which depreciation on those assets is charged in this case, fixed assets will be shown at Rs. 100 lakhs in the balance sheet of Weak Ltd. and the corresponding grant amounting Rs. 10 lakhs will be treated as deferred income to be recognized over useful life of the fixed asset.

(b) As per para 12.1 of AS 10 'Accounting for Fixed Assets' expenditure that increases the future benefits from the existing asset beyond its previously assessed standard of performance is included in the gross book-value, e.g. an increase in capacity. Hence, in the given case, repairs amounting Rs. 5 lakhs and partial replacement of parts of machinery worth Rs.50,000 should be charged to profit & loss account. Rs. 10 lakhs incurred for substantial improvement to the electrical wiring system which will increase efficiency should be capitalized.

(c) Advantages of Pre-Packaged Accounting Software:

1. **Easy to install:** The CD or floppy disk is to be inserted and the setup file should be run to complete the installation. Certain old DOS based accounting softwares require some settings to be added in the system configuration file and the system batch file. These instructions are generally provided in the user manuals.

2. **Relatively inexpensive:** These packages are sold at very cheap prices nowadays.

3. **Easy to use:** Mostly menu driven with help options. Further the user manual provides most of the solutions to problems that the user may face while using the software.

4. **Backup procedure is simple:** Housekeeping section provides a menu for backup. The backup can be taken on floppy disk or CD or hard disk.

5. **Flexibility:** There is certain flexibility in formatting of report as provided by some of the softwares. This allows the user to make the invoice, challan, GRNs look the way they want Very effective for small and medium size businesses: Most of their functional areas are covered by these standardised packages.

(d) As per para 24 of AS 2 Valuation of Inventories', materials and other supplies held for use in the production of inventories are not written down below cost if the finished products in which they will be incorporated are expected to be sold at or above cost. However, when there has been a decline in the price of materials and it is estimated that the cost of the finished products will exceed net realizable value, the materials are written down to net realisable value. In such circumstances. the replacement cost of the materials may be the best available measure of their net realisable value.

(i) When selling price is Rs. 175
Incremental Profit = Rs. 175 - Rs. 125 = Rs. 50
Current price of the material = Rs. 75
Therefore, it is better not to make the product. Raw material inventory would be valued at net realisable value i.e. Rs. 75 because the selling price of the finished product is less than Rs. 225 (100 + 125) per kg

(ii) When selling price is Rs. 225
Incremental Profit = Rs. 225 - Rs. 125 = Rs. 100
Current price of the raw material = Rs. 75.
Therefore, it is better to make the product.
Raw material inventory would be valued at Rs.100 per kg because the selling price of the finished product is not less than Rs. 225.

Illustration 3

(a) Following two problems are regarding issues in Partnership Accounts, kindly solve both:

(i) Anil and Mukesh are partners sharing profit and losses in the ratio of 3: 2. Govind is admitted for 1/4th share of firm. Thereafter Madan enters for 20 paisa in a rupee. Compute new profit sharing ratios under both the admission of partners

(ii) The following Goodwill Account was opened by the partners R and S, on the admission of H as a new partner into firm Om and Sons. Calculate the share of profit agreed to be given to 'H'.

Goodwill A/c

Dr.					**Cr.**
1-4-2010	To R's Capital A/c	24,800	1-4-2010	By R's Capital A/c	12,400
1-4-2010	To S's Capital A/c	18,600	1-4-2010	By S's Capital A/c	12,400
			1-4-2010	By H's Capital A/c	18,600
		43,400			43,400

(b) HP is a leading distributor of petrol, A detail inventory of petrol in hand is taken when the books are closed at the end of each month. At the end of month following information is available:

Sales	47,25,000
General overheads cost	7,25,000
Inventory at beginning	1,00,000 litres @ 75 per litre
Purchases	
June 7 two lakh litres @ 14,25	
June 30 one lakh litres @ 15,15	
Closing inventory 730 lakh litres	

Compare the following by the FIFO as per AS 2:

B. (i) Value of Inventory on June, 30,

(ii) Amount of cost of goods sold for June,

(iii) Profit/Loss for the month of June,

(c) A and B decide to amalgamate themselves into Sharp Limited. The following are their Balance Sheets as on 31st December, 2009.

Liabilities	**A Ltd.**	**B. Ltd.**	**Assets**	**A Ltd.**	**B Ltd.**
Face value and			Investments:		
paid up capital:			1,000 shares in B Ltd.	7,30,000	
Share capital	5,00,000	4,00,000	2,000 shares in A Ltd.	-	2,10,000
(100 each)					
General Reserves	2,00,000	1,00,000			
10% Debentures	2,00,000	1,50,000	Sundry Assets	7,70,000	4,40,000
	9,00,000	6,50,000		9,00, 000	6,50,000

Compute the amount of purchase consideration for each of these companies under purchase method as per AS 14.

Solution :

(a) (i) 1. At the time of admission of Govind

Let the total share of profit at the time of admission of Govind = 1
Share of New Partner – Govind = ¼
Remaining share of profit = 1 – ¼ = ¾
Now,
New share of Anil = ¾ x $^3/5$ = 9/20
New share of Mukesh = ¾ x $^2/5$ = 6/20
New ratio of Anil, Mukesh and Govind
$^9/20$: $^6/20$: ¼ i.e. = 9 : 6 : 5

2. At the time of admission of Madan

Let total share at the time of admission of Madan = 1
Share of new partner - Madan = $^1/5$
Remaining share = 1 - $^1/5$ = $^4/5$
Now,
New share of Anil = $^4/5$ x $^9/20$ = $^9/25$
New share of Mukesh = $^4/5$ x $^6/20$ = $^6/25$
New share of Govind = $^4/5$ x $^5/20$ = $^5/25$
New ratio of Anil, Mukesh, Govind and Madan
$^9/25$: $^6/25$: $^5/25$: $^1/5$ i.e. 9 : 6 : 5 : 5

(ii) Share of H in profit sharing ratio may be calculated as follows:

$$\text{H's share} = \frac{\text{Share of H in Goodwill}}{\text{Total Goodwill}} = \frac{18{,}600}{43{,}400} = \frac{3}{7}$$

(b) (i) Cost of closing inventory for 1,30,000 litres as on 30th June

1,00,000 lilres @ 15.15	15,15,000
30,000 litres @ 14.25	4,27,500
Total	19,42,500

(ii) Calculation of cost of goods sold

Opening inventories (1,00,000 litres @, 15)		15,00,000
Purchases	June-1 (2,00,000 litres @ , 14.25)	28,50,000
	June-30 (1.00,000 lilres @ , 15.15)	15,15,000
	Less: Closing inventories	58,65,000
Cost of goods sold		(19,42,500)
		39,22,500

(iii) Calculation of profit

Sales (Given) (A)	47,25,000
Cost of goods sold	39,22,500
Add: General overheads	1,25,000
Total cost (B)	40,47,500
Profit (A-B)	6,77,500

(c) Let the net assets of A Ltd. be x and net assets of B Ltd. be y

Then $x = 7,70,000 - 2,00,000 + \frac{1}{4} y$

$x = 5,70,000 + \frac{1}{4} y$

$4x - y = 22,80,000$ (i)

Similarly

$y = 4,40,000 - 1,50,000 + 2/5\ x$

$y = 2,90,000 + 2/5\ x$

$-2x + 5y = 14,50,000$ (ii)

By multiplying equation (ii) by 2. we get

$-4x + 10y = 29,00,000$ (iii)

By adding equation (i) with equation (iii), we get

$4x - y = 22,80,000$

$-4x + 10y = 29,00,000$

$9y = 51,80,000$ i.e. $y = \frac{51,80,000}{9} = 5,75,556$

Putting the value of y in equation (i) we get

$4x - 5,75,556 = 22,80,000$

$4x = 22,80,000 + 5,75,556$

$x = \frac{28,55,556}{4} = 7,13,889$

	A Ltd.	B Ltd
Total value of net assets	7,13,889	5,75,556
Less: $^{1}/4$ for shares held by A Ltd,	-	1,43,889
Less: $^{2}/5$ for shares held by B Ltd	2,85,556	4,31,667
Purchase consideration		

Presuming that the shares in Sharp Ltd. consist of the purchase consideration as follows:

	A Ltd.	B Ltd
Shares in Sharp Ltd. (100)	4,28,300	4,31,600
Cash	33	67
	4,28,333	4,31,667

Illustration 4

Answer the following:

(a) A company installed a plant at a cost of 20 lacs with estimated useful life of 10 years and decided to depreciate on straight line method. In the fifth year, company decided to switch over from straight line method to written down value method. Compute the resultant surplus/ deficiency if any, and state how will you treat the same in the accounts.

(b) A large size multi department's hospital decided to outsource the accounting functions. Hospital invited proposals from vendors through open tender and received three proposals. How will you select the vendor?

(c) An amount of 9,90,000 was incurred on a contract work upto 31-03-2010. Certificates have been received to date 10 the value of 12,00,000 against which 10,80,000 has been received in cash. The cost of work done but not certified amounted to 22,500. It is estimated that by spending an additional amount of 60,000 (including provision for contingencies) the work can be completed in all respects in another two months. The agreed contract price of work is 12,50,000. Compute a conservative estimate of the profit to be taken to the Profit and Loss Account as per AS 7.

Solution :

(a) Table showing depreciation under Straight Line Method (SLM) and depreciation under Written Down Value Method (WDV)

(Rs. in lacs)

	Depreciation	
Year	**SLM**	**WDV**
I	200[1]	2,00[2]
II	2.00	1.80
III	2.00	1.62
IV	2.00	1.46*
Total	8.00	6.88

Resultant surplus on change in method of depreciation from SLM to WDV = (800 - 6.88) 1.12 lakhs.

As per para 21 of AS 6 'Depreciation Accounting', when a change in the method of depreciation is made, depreciation should be re-calculated in accordance with the new method from the date of the asset put to use. The deficiency or surplus arising from retrospective re-computation of depreciation in accordance with the new method should be adjusted in the accounts in the year in which the method of depreciation is changed. In the given case, surplus amounting 1.12 lakhs (8.00 - 6.88) should be credited to profit and loss statement in the fifth year. Such a change should be treated as a change in accounting policy and its effect should be quantified and disclosed as per AS 5. "Net Profit loss for the period, prior period items and changes in Accounting Policies)

(b) The proposals will be evaluated and vendor will be selected considering the following criteria.

1. Quantum of services provided and whether the same matches with the requirements of the hospital.
2. Reputation and background of the vendor.
3. Comparative costs of the various propositions.
4. Organizational set up of the vendor particularly technical staffing to obtain services without inordinate delay.
5. Assurance of quality, confidentiality and secrecy.
6. Data storage and processing facilities.

(c) Computation of estimate of profit as per AS 7

Expenditure incurred upto 31.3.2010	9,90,000
Estimated additional expenses (including provision for contingency)	60,000
Estimated cost (A)	10,50,000
Contract price (B)	12,50,000
Total estimated profit [(B-A)]	2,00,000
Percentage of completion (9,90,000/ 10,50,000) x 100	94.29%

Computation of estimate of the profit to be taken to Profit and loss Account:

$$\text{Total estimates profit} \times \frac{\text{Expenses incurred till 31.3.2010}}{\text{Total estimated cost}}$$

$$2{,}00{,}000 \times \frac{9{,}90{,}000}{10{,}50{,}000} = 1{,}88{,}571$$

According to para 21 of AS 7 'Construction Contracts'', when the outcome of a construction contract can be estimated reliably, contract revenue and contract costs associated with the construction contract should be recognised as revenue and expenses respectively by reference to stage of completion of the contract activity at the reporting date. Thus estimated profit amounting' 1,88,571 should be recognised as revenue in the statement of profit and loss.

Illustration 5

(i) On 1st April, 2008, Chhotu started business with an initial Capital of Rs.70,000. On 1^{st} October, 2008, he introduced additional capital of Rs.40,000. On 7th of every month, he withdraws Rs.5,000 for household expenses. On 31st March, 2009 his Assets and Liabilities were Rs.2,00,000 and Rs.70,000 respectively.

Ascertain the profit earned by Chhotu during the year ended 31st March, 2009.

(ii) Year to year results of a company were not found comparable on the basis of gross profit margin. List out the probable reasons.

(iii) MY Ltd. had acquired 200 equity shares of YZ Ltd. at Rs.105 per share on 01.01.2009 and paid Rs.200 towards brokerage, stamp duty and STT. On 31st March, 2009, shares of YZ Ltd. were traded at Rs.110 per share. At what value investment is to be shown in the Balance Sheet of MY Ltd. as at 31st March, 2009.

(iv) On 1st April, 2008, X, Y and Z enter into partnership introducing capital of Rs.80,000, Rs.50,000 and Rs.50,000 respectively. They agree to share Profits and Losses equally. At the end of the accounting year on 31st March, 2009, X claims that he be paid interest on his additional Capital of Rs.30,000 @ 10% per annum, while Z demands salary of Rs.600 per month for the extra hours devoted by him daily at the shop. The partnership deed is silent on these matters.

Decide the matters with reasons.

(v) What are the basic characteristics of a Private Ltd. Company?

(vi) Sumo Ltd. has a profit of Rs.25 lakhs before charging depreciation for financial year 2008-09. Depreciation in the books was Rs.11 lakhs and depreciation chargeable under Section 205 comes to Rs.17 lakhs. Compute divisible profit for the year.

(vii) From the following data, find out value of inventory as on 30.04.2009 using (a) LIFO method, and (b) FIFO method:

(1)	01.04.2009 Purchased	10 units @ Rs.70 per unit
(2)	06.04.2009 Sold	6 units @ Rs.90 per unit
(3)	09.04.2009 Purchased	20 units @ Rs.75 per unit
(4)	18.04.2009 Sold	14 units @ Rs.100 per unit

(viii) Explain contract costs as per Accounting Standard-7 related to ‘Construction Contracts’.

(ix) Omshanti Club has 500 members with annual fee of Rs.1,000 per member. At the end of the accounting year, accountant noticed that 40 members have not paid annual fee and 70 members had paid fee in advance. Help the accountant to compute cash receipts of annual fee for the year.

(x) The Companies Act, 1956 limits the payment of managerial remuneration. What is the maximum managerial remuneration, which can be paid in case of a company consistently earning profits and has more than one managerial person?

(10 x 2 = 20 Marks)

Solution :

(i)

	Rs.
Capital as on 31.3.2009 (Rs.2,00,000 – Rs.70,000)	1,30,000
Add: Drawings (Rs.5,000 × 12 months)	60,000
	1,90,000
Less: Additional capital introduced as on 1.10.2008	(40,000)
	1,50,000
Less: Capital on 01.04.2008	(70,000)
Profit for the year ended as on 31.3.2009	80,000

(ii) The probable reasons could be the change in the accounting policy viz.

(a) Change in method of recognition of sales revenue from cash basis to accrual basis or vice versa; or

(b) Change in valuation of closing inventory by adopting different methods year to year such as LIFO to FIFO to weighted average or vice versa.

(iii)

	Rs.
Purchase price of Equity shares of YZ Ltd.(200 shares x Rs.105 per share)	21,000
Add: Brokerage, stamp duty and STT	200
Cost of investment	21,200

If the investment is a long term investment than it will be shown at cost. Therefore value of investment will be Rs. 21,200. However, if the investment is a current investment, then it will be shown at lower of cost (i.e. Rs.21,200) or net realizable value (i.e. Rs.200 x 110 = Rs.22,000). Therefore value of investment will be Rs. 21,200.

(iv) When the partnership deed is silent on the matter of interest on capitals and salary to partners, then no partner is entitled to claim interest on capital and salary. Therefore, claim of X and Z is not tenable. However, inclusion of specific provision regarding the said issues in partnership deed can make them entitled for interest on capital and salary.

(v) According to Section 3 (1) (iii), a private company means a company which has a minimum paid-up capital of one lakh rupees or such higher paid-up capital as may be prescribed, and by its articles:

(a) Restricts the rights of members to transfer its shares.

(b) Limits the number of its member to 50 excluding: (i) persons who are in employment of the company; and (ii) persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased. For this purpose joint holders of shares will be counted as single members.

(c) Prohibits any invitation to the public to subscribe to any shares in, or debentures of, the company.

(d) Prohibits any invitation or acceptance of deposits from persons other than its member, directors, and relatives.

(vi) Computation of divisible profit

	(Rs. in lakhs)
Profit for the year 2008-2009	25.00
Less: Depreciation chargeable under Section 205	(17.00)
Divisible profit for the year	8.00

(vii) (a) Statement showing valuation of closing inventory by LIFO method

Date	Receipts			Issue			Balance		
	Unit	Cost/ Unit	Amount	Unit	Cost/ unit	Amount	Unit	Cost/ unit	Amount
1.4.09	10	70	700				10	70	700
6.4.09				6	7	420	4	70	280
9.4.09	20	75	1500				4	70	280
							20	75	1500
18.4.09				14	75	1,050	4	70	280
							6	75	450

Value of closing inventory as per LIFO method:
4 units x Rs.70 = Rs.280
6 units x Rs.75 = Rs.450 Rs.730

(b) Statement showing valuation of closing inventory by FIFO method

Date	Receipts			Issue			Balance		
	Unit	Cost/ Unit	Amount	Unit	Cost/ unit	Amount	Unit	Cost/ unit	Amount
1.4.09	10	70	700				10	70	700
6.4.09				6	70	420	4	70	280
9.4.09	20	75	1500				4	70	280
							20	75	1500
18.4.09				4	70	280	10	75	750
			10	75	750				

Value of closing inventory as per FIFO method:
10 Units x Rs.75 = Rs.750

(viii) As per para 15 of AS 7 "Construction Contracts (revised 2002)", contract cost should comprise:

(a) costs that relate directly to the specific contract;

(b) costs that are attributable to contract activity in general and can be allocated to the contract; and

(c) such other costs as are specifically chargeable to the customer under the terms of the contract.

(ix) Computation of cash receipts of annual fee for the year

	Rs.
Total fee receivable during the year (500 members × Rs.1,000) =	5,00,000
Less: Fee not received (40 members × Rs.1,000) =	(40,000)
	4,60,000
Add: Fee received in advance (70 members × Rs.1,000) =	70,000
Cash received during the year towards annual fee =	5,30,000

(x) Section 198 of the Companies Act, 1956 prescribes the overall maximum managerial remuneration payable and also managerial remuneration in case of absence or inadequacy of profits. In the given case, the company is earning profits consistently and has more than one managerial person; therefore, the maximum limit is 10% of net profit.

Illustration 6

Answer any four of the following:

(i) Market is full of ready-made accounting softwares. What factors will you consider to choose one of them for your enterprise?

(ii) As per Accounting Standard-14, what are the conditions which must be satisfied for an amalgamation in the nature of merger?

(iii) What do you mean by Customised Accounting Software?

(iv) Rose Ltd. had made an investment of Rs.500 lakhs in the equity shares of Nose Ltd. on 10.01.2009. The realisable value of such investment on 31.03.2009 became Rs.200 lakhs as Nose Ltd. lost a case of patent rights. Rose Ltd. follows financial year as accounting year. How will you recognize this reduction in Financial statements for the year 2008-09.

(v) A company provided Rs.10,00,000 for dividend payment. Is the Corporate Dividend Tax payable in this case? If yes, please compute Corporate Dividend Tax assuming rate of 15% plus surcharge of 10% and disclose as it would appear in profit and loss account of the company.

(vi) SAD Enterprises, a partnership firm, had purchased business of SWAD enterprises on 01.04.2008 and paid Rs.50,000 towards goodwill. On 01.04.2009, SAD enterprises decided to admit W as partner and the goodwill was valued at Rs.1,00,000 for the purpose.

Please explain with reasons, at what price goodwill can be shown in the books of account. (4 × 4 = 16 Marks)

Solution :

(i) While choosing the accounting software, the following points should be considered:

1. Fulfillment of business requirements: Some packages have few functionalities more than the others. The purchaser may try to match his requirement with the available solutions.

2. Completeness of reports: Some packages might provide extra reports or the reports match the requirement more than the others.

3. Ease of use: Some packages could be very detailed and cumbersome compare to the others.
4. Cost: The budgetary constraints could be an important deciding factor. A package having more features cannot be opted because of the prohibitive costs.
5. Reputation of the vendor: Vendor support is essential for any software. A stable vendor with reputation and good track records will always be preferred.
6. Regular updates: Law is changing frequently. A vendor who is prepared to give updates will be preferred to a vendor unwilling to give updates.

(ii) According to AS 14 "Accounting for Amalgamations", Amalgamation in the nature of merger is an amalgamation which satisfies all the following conditions:

(a) All the assets and liabilities of the transferor company become, after amalgamation, the assets and liabilities of the transferee company.

(b) Shareholders holding not less than 90% of the face value of the equity shares of the transferor company (other than the equity shares already held therein, immediately before the amalgamation, by the transferee company or its subsidiaries or their nominees) become equity shareholders of the transferee company by virtue of the amalgamation.

(c) The consideration for the amalgamation receivable by those equity shareholders of the transferor company who agree to become equity shareholders of the transferee company is discharged by the transferee company wholly by the issue of equity shares in the transferee company, except that cash may be paid in respect of any fractional shares.

(d) The business of the transferor company is intended to be carried on, after the amalgamation, by the transferee company.

(e) No adjustment is intended to be made to the book values of the assets and liabilities of the transferor company when they are incorporated in the financial statements of the transferee company except to ensure uniformity of accounting policies.

(iii) A customised accounting software is one where the software is developed on the basis of requirement specifications provided by the organisation. The choice of customized accounting software could be because of the typical nature of the business or else the functionality desired to be computerised is not available in any of the pre-packaged accounting software. An organisation desiring to have an integrated software package covering most of the functional area may have the financial module as part of the entire customised system.

(iv) Recognition of reduction in value of investment would depend upon the nature of investment and nature of decline as per Accounting Standard 13 “Accounting for Investments”. As per provisions of the standard, if the investments were acquired for long term and decline is temporary in nature, reduction in value will not be recognized and investments would be carried at cost. If the decline is of permanent nature, it will be charged to profit and loss account. If the investments are current investments, then the reduction should be recognized and charged to Profit and Loss Account as the current investments are carried at cost or fair value, whichever is less.

(v) Yes, Corporate Dividend Tax (CDT)??is payable by the company which has provided for the payment of dividend. CDT is payable even if no income tax is payable. This is payable by a domestic company on distribution of profits to its shareholders.

In the given case, Corporate Dividend Tax would be worked out to Rs.1,65,000 [i.e. (Rs.10,00,000 x 15%) x 110%]. CDT should be accounted for in the same financial year in which provision for dividend is recognized and made. CDT shall be disclosed in profit and loss account below the line just after the provision for dividend. Such disclosure would give a proper picture regarding payments involved with reference to dividends. Disclosure of CDT in the profit and Loss Account will be as follows:

Dividend	XXXX	
Corporate Dividend Tax	XXXX	XXXX

* Corporate Dividend Tax is also known as ‘Dividend Distribution Tax’.

(vi) Para 16 of AS 10,’ Accounting for Fixed Assets’ states that goodwill can be recorded in the books only when some consideration in money or money’s worth has been paid for it. Therefore, only purchased goodwill should be recorded in the books. In the said case, payment of Rs.50, 000 was made towards purchase of goodwill; hence to this extent goodwill can be recorded in the books. Additional goodwill of Rs.50, 000 is self generated goodwill, which should not be recorded. On admission, death or retirement of a partner, goodwill adjustments can be carried out through capital accounts.